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OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

WRITTEN COMMENTS

ON

CERTAIN TARIFF AND TRADE BILLS

VOLUME IV

JULY 15, 1988

Printed for the use of the Committee on Ways and Means to its staff

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FOR IMMEDIATE RELEASE
THURSDAY, OCTOBER 22, 1987

SUBCOMMITTEE ON TRADE #12
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES REQUEST FOR WRITTEN COMMENTS ON CERTAIN TARIFF AND TRADE BILLS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade is requesting written testimony for the record from all interested parties on the miscellaneous tariff and trade bills listed below.

A determination regarding further scheduling of public hearings or other Subcommittee action on any of these bills will not be made until after the close of this public comment period.

The tariff and trade bills on which written testimony will be received are:

Duty Suspension Bills

H.R. 2544 (Mr. DioGuardi): To suspend the duty on cultured pearls until January 1, 1991.

H.R. 2755 (Mr. Mollohan): To suspend for a temporary period the duty on certain nitrogenous compounds.

H.R. 2766 (Mr. Carper): To suspend for a 5-year period the duty on pyromellitic dianhydride (PMDA).

H.R. 2917 (Mr. Carper): To suspend for a 5-year period the duty on Bendiocarb.

H.R. 2947 (Mr. Brown of Colorado): To suspend for a 3-year period the duty on carfentanil citrate.

H.R. 2981 (Mr. Guarini): For the relief of Princeton University, Princeton, New Jersey.

H.R. 3139 (Mr. Crane): To extend for 3 years the existing suspension of duty on certain brussels sprouts.

H.R. 3271 (Mr. Rose): To suspend for a 3-year period the duty on thiothiamine hydrochloride.

H.R. 3306 (Miss Schneider): To extend the temporary suspension of duty on a certain chemical.

H.R. 3426 (Mr. Clinger): To temporarily suspend the duty on N-methyl aniline and m-chloro aniline.

H.R. 3447 (Ms. Kaptur): To suspend for a 2-year period the duty on positive displacement reciprocating machines, parts for machines of that kind, and other related articles.

H.R. 3475 (Mr. Inhofe): To suspend until January 1, 1991, the duty on acetophenone.

Classification Bills

H.R. 2512 (Mr. Swift): Relating to the tariff treatment of loganberries and raspberries.

H.R. 2604 (Mr. DeFazio, Mr. Bonker, and Mr. Neal): To amend the Tariff Schedules of the United States to clarify the definition of hardboard, and for other purposes.

H.R. 2757 (Mr. Schulze): Relating to the tariff treatment of portable marine stoves.

H.R. 3211 (Mr. LaFalce): To amend the Tariff Schedules of the United States by repealing item 807.00 relating to certain articles assembled from abroad from fabricated components which are products of the United States.

Customs and Other Nontariff Matters Bill

H.R. 3059 (Mr. Archer): To extend the filing period for reliquidation of certain imports.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments should submit six (6) copies by the close of business, Friday, December 4, 1987, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

* * * * * * * * * * *

H.R. 2512

Relating to the tariff treatment of loganberries and raspberries.
No statements submitted.

H.R. 2544

To suspend the duty on cultured pearls until January 1, 1991.

STATEMENT ON BEHALF OF MANUFACTURING JEWELERS AND SILVERSMITHS OF AMERICA, INC. AND CULTURED PEARL ASSOCIATION

The proposed legislation would affect the Customs treatment of cultured pearls classified in TSUS item 741.06 (HS No. 7116.10.15) by suspending the 2.1% ad val duty until January 1, 1991.

This duty suspension was requested by the Manufacturing Jewelers and Silversmiths of America and the Cultured Pearl Association whose members account for over 75 percent of the imports of cultured pearls.

In 1986 the foreign value of imported cultured pearls was $191 million dollars. The four major supplying countries accounting for 94 percent of the total in 1986 were Japan at $160.9 million; Hong Kong at $11.1 million; China at $4.2 million and Australia at $3.3 million. Japan's share of the total has declined from a high of 91.5 percent in 1983 to 84.5 percent in 1986.

Further imports of cultured pearls from Japan, which were valued at $214 million in 1984 declined to $161 million in 1986 and are estimated at $125 million in 1987, primarily in response to the appreciation of the yen in relation to the dollar. While suspending the duty on cultured pearls will not totally compensate for the drop in the value of the dollar, suspension would clearly be an ameliorating factor for this industry. Certainly the duty suspension would assist the cultured pearl segment of the U.S. jewelry industry to be more competitive.

Duty-free imports from GSP eligible countries amounted to $6.1 million or 3.2 percent of the total in 1986.

The U.S. International Trade Commission in Summaries of Trade and Tariff information reported,

> Natural and cultured pearls, which are provided for under items 741.05 and 741.06, respectively, are formed by a physiological reaction occurring when an irritating foreign substance becomes imbedded in the tissues of an oyster or other mollusk. This foreign body is coated with many layers of nacreous material emitted by the oyster and in time becomes a pearl. The only difference between natural and cultured pearls is that the nucleus of a cultured pearl becomes imbedded as an accident of nature. There are many types of mollusks which emit nacre, but only the pearl oyster, the white and blacklip oysters, and a few other species form pearls valued for use in jewelry.
>
> In 1893, a process for artificially "seeding" oysters was developed in Japan. A period of 2 to 3 years is allowed for development of the cultured or cultivated pearl to a marketable size (about 3mm in

> diameter). <u>There is no commercial U.S. production of pearls, natural or cultured</u>. Bits or pieces of the pig-toe mussel shell, found mainly in the waters of the Mississippi and Wabash Rivers, are used primarily as the nucleas inserted into the oyster by Japanese cultivators. Because of the "red tide" and other damaging parasites which afflict the pearl oyster, only about 4 out of 10 oysters survive and produce pearls, only 10 to 15 percent of which are commercially marketable. (Emphasis added)
>
> Pearls are produced in different colors owing to differences in the nacre excreted by the oysters and in the type of sea water in the oyster beds. Pink and white pearls are the most popular in the United States. The pearls and parts thereof (items 741.05 and 741.06) covered in this summary include those drilled or not drilled, but not strung (except temporarily) and not set. (U.S. ITC Publication 841, March 1981 at p. 3).

The United States grown pig-toe mussel shell noted in the ITC Report is used almost exclusively by Japanese and other cultured pearl producers as a nucleus. Such shells are desirable because they are of pure form calcium carbonate which is white in color. In 1986 shells valued at $14 million dollars were exported by U.S. firms. Of this total 83% went to Japan.

Crude marine shells classified in Schedule B No. 190.65 are believe to be primarily pig-toed mussel shells. Exports of these marine shells declined in 1986 largely as a result of a 17% drop in sales to Japan. An increase in the export of pig-toe mussel shells could be a welcome by-product of this legislation.

In summary, the duty suspension is warranted because there are no U.S. firms engaged in the commercial production of cultured pearls, and there are domestic industries which face increased costs as a result of the duty. Industries which are dependent upon imports are already facing higher costs as a result in the devaluation of the dollar. The United States does not need to continue unnecessary duties which add to their expenses.

IMPORTS, CULTURED PEARLS
TSUS Item No. 741.06
($1,000 Dollars)

	Japan	Total	% Japan to Total
1982	$ 84,595	$ 93,936	90.0%
1983	148,989	162,832	91.5
1984	214,162	240,440	89.1
1985	199,149	228,004	87.3
1986	160,910	190,497	84.5
1987*	82,676	97,372	84.9

Source: IM 146 U.S. Department of Commerce

EXPORTS, MARINE SHELLS, CRUDE
Schedule B No. 190.65
($1,000 Dollars)

	Japan	Total	% Japan to Total
1982	$ 8,975	$15,056	59.6%
1983	10,176	13,507	75.3
1984	10,608	13,407	79.1
1985	14,061	16,247	86.5
1986	11,690	14,112	82.8
1987*	9,807	11,271	82.0

Source: EX 546 U.S. Department of Commerce

NOTE: It is believed that this export classification consists almost entirely of pig-toe mussel shells.

*Eight month period - January/August.

H.R. 2604

To amend the Tariff Schedules of the United States to clarify the definition of hardboard, and for other purposes.

STATEMENT OF
THE AMERICAN HARDBOARD ASSOCIATION
IN SUPPORT OF H.R. 2604
CONCERNING U.S. TARIFF TREATMENT OF
CERTAIN TYPES OF HARDBOARD

INTRODUCTION

The American Hardboard Association, the national trade association of eight manufacturers of hardboard,(1) submits this statement in support of H.R. 2604, a bill that would clarify the intent of Congress concerning the appropriate tariff classification of edgeworked hardboard siding.

AHA is the national voice of the hardboard industry. The seventeen domestic manufacturing plants operated by the U.S. member firms of AHA currently employ some 5,500 American workers and account for more than 95 percent of total domestic hardboard shipments. AHA is vitally concerned with the maintenance of a free trade system. The association's support for free trade is conditioned, however, on the belief that free trade must be accompanied by fair and consistent import practices, both at home and abroad. The latter include tariff classification practices which are applied in an even-handed, consistent and uniform manner. In this regard, H.R. 2604 would address and correct a classification practice of the Customs Service that is and has been neither even-handed nor consistent. This practice involves classifying hardboard as duty-free building board rather than dutiable hardboard, because of minor working of the items' edges. Such edgeworking often involves only rounding, sanding or sawing. For the reasons stated below, AHA wholeheartedly supports enactment of this legislation.

WHAT H.R. 2604 WOULD DO

H.R. 2604 is a technical definitions tariff measure designed to eliminate confusion in the categorization of hardboard imported into the United States. Adoption of this measure will ensure that all hardboard imports will be subject to uniform classification and duties.

The bill would clarify the TSUS by specifying in a headnote that edgeworking of hardboard does not remove the product from the "hardboard" categories. It would do so by incorporating a definition of "hardboard" that includes products with worked edges into Schedule 2, Part 3.

H.R. 2604 is virtually identical to legislation correcting the tariff classification of edgeworked plywood which has twice passed the House of Representatives,(2) and which is currently awaiting action by the House-Senate Conference Committee as part of H.R. 3.(3) The rationale which prompted passage of that legislation is equally applicable to H.R. 2604.

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(1) A list of AHA member companies is attached as Exhibit 1.

(2) The plywood provision first passed the House in 1986 as part of H.R. 4800.

(3) Section 815 of H.R.3.

some edgeworked hardboard as "hardboard" while classifying other edgeworked hardboard as "building board" is not only extremely confusing, but also illogical, inconsistent and unfair.

This approach is unfair to domestic hardboard producers because it is a relatively easy, inexpensive procedure for an exporter to perform minor edgeworking on his or her product, rendering it classifiable as a duty-free building board under Item 245.90, TSUS, rather than hardboard at higher duty rates. In the case of one hardboard product from Canada (a leading exporting nation to the U.S. of hardboard siding), the manufacturer has disclosed in court proceedings that the cost of edge-working is far less than the duty saved.

THE IMPACT OF H.R. 2604

By creating a definition of "hardboard" that would include edgeworked products, H.R. 2604 would defeat attempts by foreign manufacturers to obtain duty-free status of hardboard currently classified as "building boards" because of the incorporation in the products of minor edgeworking which costs considerably less than the resultant duty savings.

H.R. 2604 would also reintroduce equity in the U.S. tariff treatment of imported hardboard as compared with that accorded U.S. exports of these products by our major trading partners. In this regard, a review of the tariff practices of Canada and Brazil, two leading exporters of hardboard to America, is highly instructive.

Canada's tariff classification system provides two categories for hardboard imports. Canadian Item 190200-3, which covers "Hardboard Unfinished", most closely approximates the unfinished hardboard described in T.S.U.S. Item Nos 245.00, 245.10 and 245.20. The Canadian category applies an ad valorem tariff rate of 6.5 percent, however, which is more than double the 3.0 percent tariff applicable to the three U.S. categories for unfinished hardboard.

Canadian Item No. 190200-4 covers "Hardboard, n.o.p." that is face-finished and thus most nearly parallels the product covered by T.S.U.S. 245.30. Imports of American hardboard that are classified under this category are subject to a 9.2 percent ad valorem tariff, which is more than half again as great as the 6.0 percent tariff applicable to Canadian imports classified under the comparable U.S. provision.

This disparity has been magnified since imported edgeworked hardboard was granted duty-free status through classification under T.S.U.S. 245.90. AHA knows of no similar Canadian tariff practice which grants duty-free status to American hardboard exports merely because the product has undergone minor, inexpensive edgeworking.(6)

AHA has repeatedly supported the elimination of U.S.-Canadian tariffs on hardboard traded between the two

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(6) See Arthur J. Humphreys, Inc. v. United States, Ct. Int'l. Trade No. 82-9-01254.

THE NEED FOR THE LEGISLATION

The need for this legislation stems from the insistence of the Customs Service on removing panel products from classification under their eo nomine categories if those products have undergone minor edgeworking operations, such as bull-nosing, tongue and grooving, ship-lapping or rabbetting. This practice causes the absurd result of classifying what is essentially the same product in two different tariff categories with widely divergent duties.

The Tariff Schedules of the United States (TSUS) contain four eo nomine ("by its name") categories for hardboard and hardboard products. Hardboard is classifiable under TSUS Item Nos. 245.00 through 245.30, inclusive, depending upon value and whether or not it is face finished. Item Nos. 245.00, 245.10 and 245.20 apply a 3 percent ad valorem duty; hardboard classified under TSUS 245.30 is subject to a 6 percent ad valorem duty.

It is a well-settled principle of Customs law and practice that an eo nomine designation, without clear legislative intent or judicial decision to the contrary, includes all forms of the named article.(4) Since 1980, however, the Customs Service has maintained the position that selected types of edgeworking render hardboard and plywood products "more than" their eo nomine designations. This results in classification of these products as "building boards, not specially provided for", under Item Nos. 245.80, TSUS (if laminated) or 245.90 (if not laminated).(5)

The edgeworking of the hardboard often involves processes whereby the edges are merely cut, bull-nosed, sanded or sawed. Customs continues to maintain the position, however, that not all types of edgeworking remove wood panel products from their eo nomine tariff classifications. In Customs Ruling CLA-2 CO:R:CV:G 068595 BF, Customs considered the appropriate tariff classification of finished hardboard paneling that had vertical grooves pressed into its surface. Some of the grooves ran along the panels' edges, resulting in "slight depressions running from the outer edges inward on the faces of the paneling." Customs determined that the panels' grooved edges were not the result of "edgeworking." Consequently, it ruled that the hardboard panels were classifiable under TSUS 245.30 (an eo nomine provision for hardboard) holding:

> Panels with grooves which run from the outer edge inward on the faces of the panels are properly classifiable under their material provision.

Customs has continued to assert that these panels are "hardboard" in an importer's appeal of its classification decision before the Court of International Trade. To classify

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(4) See Nootka Packing Co. v. United States, 22 CCPA 464, T.D. 47464 (1935).

(5) See Customs Ruling CLA:2:RRUGC 061750BF (November 4, 1980); T.D. 86-194, 20 Cust. Bull. No. 45 (Nov. 12, 1986). See Arthur J. Humphreys, Inc. v. United States, Ct. Int'l. Trade No. 82-9-01254.

nations. While the recently announced free trade agreement would eventually achieve this goal, its ultimate adoption remains in doubt and its implementation could well take 10 years. In the meantime, the enactment of H.R. 2604 would serve to mitigate this disparity by removing a unilateral duty-free benefit, unintended by Congress, from Canadian hardboard exports to the U.S.

Brazilian hardboard which is edge-worked also is entitled to duty-free status under T.S.U.S. 245.90. To AHA's knowledge, Brazil accords no special status to imports of edgeworked hardboard, which like other hardboard imported from the U.S., are subject to an 85 percent ad valorem tariff.(7)

Moreover, the Harmonized Tariff nomenclature, which will soon be put into effect by most of America's major trading partners, includes mechanically worked hardboard and hardboard whose edges have not been worked under the same generic headings. Hardboard will be classified under Heading 4411, "(f)iberboard of wood or other lingeous materials, whether or not bonded with resins or other organic substances." It is only in the United States that a special, duty-free eight-digit sub-category has been carved out for hardboard that is "tongued, grooved or rabbetted continously along any of its edges," because of this dispute.

CONCLUSION

AHA supports H.R. 2604 even though it might reduce duties on some hardboard products because it believes that it is absurd for Customs to classify two nearly identical products under two different tariff categories having widely divergent duties, merely because one product has been subjected to certain minimal edgeworking.

The proposed headnote definition would eliminate this anomaly by including in the headnotes a definition of "hardboard" that would ensure that hardboard imports, notwithstanding their type(s) of edges, are subject to uniform classification and duties. The rationale for passage of H.R. 2604 is equally compelling to that which spurred adoption by the House of Section 815 of H.R. 3, which would restore edgeworked plywood to its eo nomine category. In the interests of fairness, uniformity and equity, the American Hardboard Association strongly urges passage of H.R. 2604.

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(7) One particualr hardboard product has been the subject of protracted litigation between AHA and theCanadian Hardboard manufacturer, MacMillan Bloedel, Ltd. See American Hardboard Association v. United States, et. al., CT. Int'l. Trade No. 83-9-01301. On Administrative remand from the Court of International Trade, the Customs Service recently determined that this product, which has been edgeworked and has an attached plastic spline, is classiable under Item 245.80, TSUS, which carries compound. tariffs estimated at from 9-10 percent. Thus, passage of this amendment could benefit MacMillan, if the product were classified as face-finished hardboard under Item 245.30, at an ad valorem rate of 6 percent.

EXHIBIT I

The member companies of the American Hardboard Association are:

Abitbi-Price Corporation
3250 West Big Beaver Road
Troy, Michigan 48084

Evanite Hardboard, Inc.
1115 S.E. Crystal Lake Drive
Corvallis, Oregon 97330

Forestex Company
P. O. Box 68
Forest Grove, Oregon 97116

Georgia-Pacific Corporation
P. O. Box 105605
Atlanta, Georgia 30348

MacMillan Bloedel Building Materials
50 Oak Street
Weston, Ontario M9N 1S1

Masonite Corporation
1 South Wacker Drive
Chicago, Illinois 60606

Temple-Eastex, Inc.
P. O. Drawer N
Diboll, Texas 75941

Weyerhaeuser Company
P. O. Box 9
Klamath Falls, Oregon 97601

H.R. 2755

To suspend for a temporary period the duty on certain nitrogenous compounds.
No statements submitted.

H.R. 2757

Relating to the tariff treatment of portable marine stoves.

STATEMENT SUBMITTED BY:

Jean C. Morrow
Marine Operations Director
Shipmate Stove Division
Richmond Ring Company
P.O. Box 375
Souderton, PA 18964
(215) 855-2609

BACKGROUND INFORMATION:

The Richmond Ring Company, established in 1934, purchased The Stamford Foundry Company's patterns and registered trademark for Shipmate stoves in 1950. (See Exhibit 1: advertisement from Pacific Fisherman, March 1925).

Shipmate stoves have a world renowned reputation for quality with no built in obsolescence. Shipmate stoves are exported to Canada, England, France, Taiwan and Hong Kong, to name a few; and, through the years, many Canadian boat builders used Shipmates exclusively.

NEW CANADIAN MARINE STOVE TARIFF:

Received letter on March 2, 1987, from Revenue Canada, dated February 19, 1987, advising that new duty of 11.3 per cent on marine stoves would be effective March 1, 1987. (See Exhibit 2; all such cooking apparatus and heaters for use in the construction or equipping of vessels .... of class or kind made in Canada by Force 10 Marine Ltd. of Richmond, BC).

Revenue Canada levied this new 11.3 per cent duty during the ongoing trade talks between the U.S. and Canadian trade representatives. Canadian made marine stoves cross the U.S. border, by the truckloads, at 4.2 per cent.

The 11.3 per cent on marine stoves was levied at the request of a Canadian manufacturer, according to Allan Gotlieb, Canadian Ambassador. (See Exhibit 3). This manufacturer is identified by Revenue Canada as Force 10 Marine in Exhibit 2.

The Canadian government claims that they recently became aware of Force 10 Marine. However, Force 10 Marine has been extant for 19 years according to the Canadian government's advertisement section, entitled 'Canadian Boat' in the September 1987 **BOATING INDUSTRY**, 1988 Business Outlook. (See Exhibit 4 - complete magazine section in color - ONE COPY ONLY).

Force 10 Marine, Richmond, BC crosses the U.S. border at Blaine, Washington, with truckloads of stoves and parts. All stoves and parts are shipped F.O.B. Blaine, Washington. Enclosed is a Force 10 Marine label which was attached to our recent order for kerosene stove parts, products of Portugal. (See Exhibit 5). According to Gerald J. McManus, U.S. Customs Service, Force 10 Marine entries have been properly assessed, and they can ship anywhere they wish once the goods clear customs. (See Exhibit 6). However, I do not believe a foreign manufacturer who ships according to the enclosed label is properly identified. I have sent a copy to Mr. McManus for his opinion.

The Border Brokerage Co., Inc. (same as on Force 10 shipping label) brought suit against the United States of America in 1984 because of Customs assessment on imports from another Canadian marine stove manufacturer, Dickinson Marine. The president of our company testified as an expert witness on behalf of the United States. The judge ruled in favor of the plaintiff, Court No. 81-10-01432. Based on this case, Customs levies 4.2 per cent on marine stoves and heaters. The stoves and heaters at issue were considered NOT portable in Border Brokerage Co., Inc. vs U.S.A. However, the stoves and heaters in this case are not unlike those manufactured by Richmond Ring Company, Force 10 Marine, and all other manufacturers of marine stoves. According to the case, the boats were considered households since the boater can live onboard. The case illustrates a lack of careful review by the judge, a dearth of knowledge about sailing and motor yachts, and a complete disregard for an expert in the marine stove manufacturing industry.

SUMMARY:

It was only after Revenue Canada established their new marine stove tariff that my attention was drawn to the U.S. tariff. I learned that we do not have such a tariff; marine stoves enter the U.S. under the tariff for household cooking stoves.

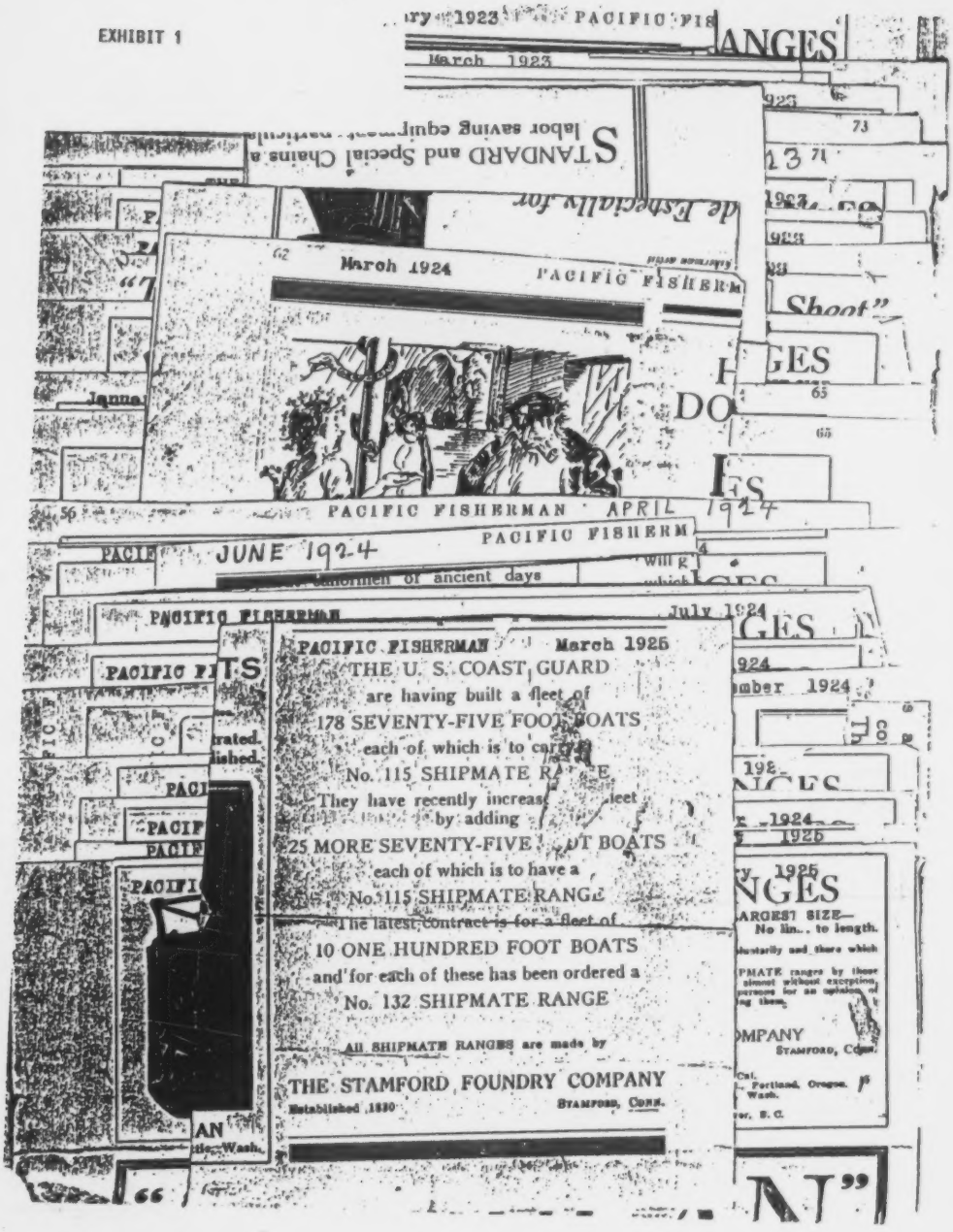
Shipmate stove sales have been impacted greatly by Force 10 Marine imports. Not because they offer a better product, but because of subsidization and an outmoded U.S. tariff. When the Canadian government picks up your advertising expense in all major publications, pays your expenses for attending all major trade shows, and the U.S. government allows you to bring in truckloads of marine stoves at 4.2 per cent (possibly at cost rather than wholesale), then the U.S. manufacturer cannot compete at the same distributor discount level. Therefore, since price is the major consideration, the Canadian marine stoves will outsell the U.S. stoves.

Richmond Ring Company's stove sales dropped over $200,000 annually during 1985 and 1986. The pattern continues for 1987, and clearly demonstrates Force 10 Marine's impact on domestic sales. If I matched their discounts to distributors, then I would be below cost. I cannot stop the subsidization, but I can ask my government to establish a reasonable tariff to offset some of the impact. This would be beneficial since Force 10 Marine ships F.O.B. Blaine, WA, and U.S. prices include duty and brokerage fees.

In establishing this tariff, I would ask that it include all stoves and heaters for vessels, all fuels including electric, and that the word **'PORTABLE'** be removed since it was misused in the Border Brokerage Co., Inc. vs U.S.A. Including electric marine stoves has become necessary due to Force 10 Marine's recent introduction of an electric marine stove. They will soon be dumping these by the truckloads. While we do not presently manufacture electric marine stoves, others in our small industry do, e.g. Seaward Products, Inc., whose sales have dropped $250,000 annually. An 11.3 per cent duty should be levied on all such cooking apparatus and heaters for use in the construction or equipping of vessels. Contrary to the ruling in favor of Border Brokerage Co., Inc., such stoves and heaters should not have been considered as household stoves. The word **"PORTABLE"** in H.R. 2757 must be removed or Border Brokerage Co., Inc., can bring suit on behalf of Force 10 Marine. It has already been shown in Exhibit 5 that Force 10 Marine ships from Border Brokerage, Co., Inc's Blaine, WA location. (See Exhibit 7, Shipmate catalogue).

In discussing duties with distributors from other countries, it would appear that 11.3 per cent is the norm. Only the United States has outmoded and extremely low duties. Reassessing U.S. tariffs, establishing new tariffs, and raising old tariffs to approximate the rest of the world may be one way to ensure equitable treatment for U.S. manufacturers. We want equity in tariffs, not quotas and other hindrances to export/import activities. H. R. 2757 offers equity to the manufacturers in our small industry.

EXHIBIT 1



March 1923

PACIFIC FISHERMAN

STANDARD and Special Chains a
labor saving equipment. Particul
de Especially for

March 1924

PACIFIC FISHERMAN

Shoot"

PACIFIC FISHERMAN APRIL 1924

JUNE 1924

PACIFIC FISHERMAN

July 1924

PACIFIC FISHERMAN March 1925

THE U. S. COAST GUARD
are having built a fleet of
178 SEVENTY-FIVE FOOT BOATS
each of which is to carry
No. 115 SHIPMATE RANGE
They have recently increased the fleet
by adding
25 MORE SEVENTY-FIVE FOOT BOATS
each of which is to have a
No. 115 SHIPMATE RANGE
The latest contract is for a fleet of
10 ONE HUNDRED FOOT BOATS
and for each of these has been ordered a
No. 132 SHIPMATE RANGE

All SHIPMATE RANGES are made by

THE STAMFORD FOUNDRY COMPANY
Established 1830 STAMFORD, CONN.

1925

LARGEST SIZE—
No lin... to length.

PMATE ranges by those
almost without exception,
persons for an opinion, of
ing them,

MPANY
STAMFORD, Conn.

Cal.
Portland, Oregon.
Wash.
ver, B. C.

Revenue Canada
Customs and Excise

Revenu Canada
Douanes et Accise

Ottawa, Canada
K1A 0L5

EXHIBIT 2

February 19, 1987.

Your reference

Our file

44022-1(DJC)sm
6174 J 1981

Shipmate Stove Division,
Richmond Ring Company,
Souderton, Pennsylvania.
U.S.A. 18964

Gentlemen:

This is further to my letter of September 30, 1986, inquiring as to the number of marine cooking apparatus and heaters exported by your firm to Canada. The fuel source could be kerosene, diesel, propane or natural gas.

The departmental survey has now been completed. Effective March 1, 1987, all such cooking apparatus and heaters for use in the construction or equipping of vessels are considered to be of a class or kind made in Canada by Force 10 Marine Ltd. of Richmond, B.C. Accordingly, such goods are no longer eligible for duty free entry under tariff item 44022-1 but, rather, are dutiable under tariff item 44300-1 at 11.3 per cent Most-Favoured-Nation rate when imported from the United States.

This cancels and supersedes all previous rulings on these types of goods.

Yours truly,

D.J. Causley,
Tariff Administrator,
Transportation and Agricultural
Equipment Products Unit,
Tariff Programs.

Canada

Department of National Revenue (Customs and Excise)

Ministère du Revenu national (Douanes et Accise)

EXHIBIT 3

6/29

Canadian Embassy Ambassade du Canada

1746 Massachusetts Ave., N.W.
Washington, D.C. 20036

June 18, 1987

The Honourable Richard T. Schulze
2369 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Schulze:

Thank you for your letter of April 9, 1987, concerning a recent change in the Canadian tariff on marine stoves from free to 11.3%. I understand the reasons for your concern, but I can assure you that this change was fully in keeping with our GATT obligations towards the United States and is not the result of a capricious or protectionist action.

The change in dutiable status of these stoves resulted from a change in their classification from Tariff Item 44022-1 to Tariff Item 44300-1. Item 44022-1 provides free entry for a list of specified metal articles used to equip vessels; it also covers all other metal articles for vessels, but only if they are determined to be of a "class or kind not made in Canada". The "not made in Canada" qualification, which extends duty-free treatment, can be lifted if Revenue Canada determines, after having surveyed the industry, that Canadian manufacturers have actually produced a quantity sufficient to supply at least 10% of the normal Canadian consumption.

Following representations from a Canadian producer, and after thorough investigation, Revenue Canada determined that Canadian production of such stoves is sufficient to supply at least 10% of Canadian consumption. As a result Revenue Canada had no choice under Canadian law but to rule that marine stoves (other than certain alcohol-burning types) are now "made in Canada" and no longer qualify for duty-free entry under Tariff Item 44022-1. Instead, they fall under Tariff Item 44300-1 at a rate of 11.3%.

In view of the foregoing, I trust that you appreciate that the change in dutiable status of marine stoves did not come about as a result of a tariff policy decision or any legislative action to increase tariff protection. This was simply a case of a Canadian manufacturer taking advantage of his rights under Canadian law, which is consistent with GATT rules. These provisions have been in effect for many years and are included in Canada's GATT tariff schedule, which has been accepted by our trading partners.

As you know, an important objective in the Canada-United States trade negotiation is the phased elimination of tariffs on trade between our two countries. I believe that these negotiations offer the best prospect of resolving, in a timely way, your constituent's problem.

Yours sincerely,

Allan Gotlieb

Allan Gotlieb
Ambassador

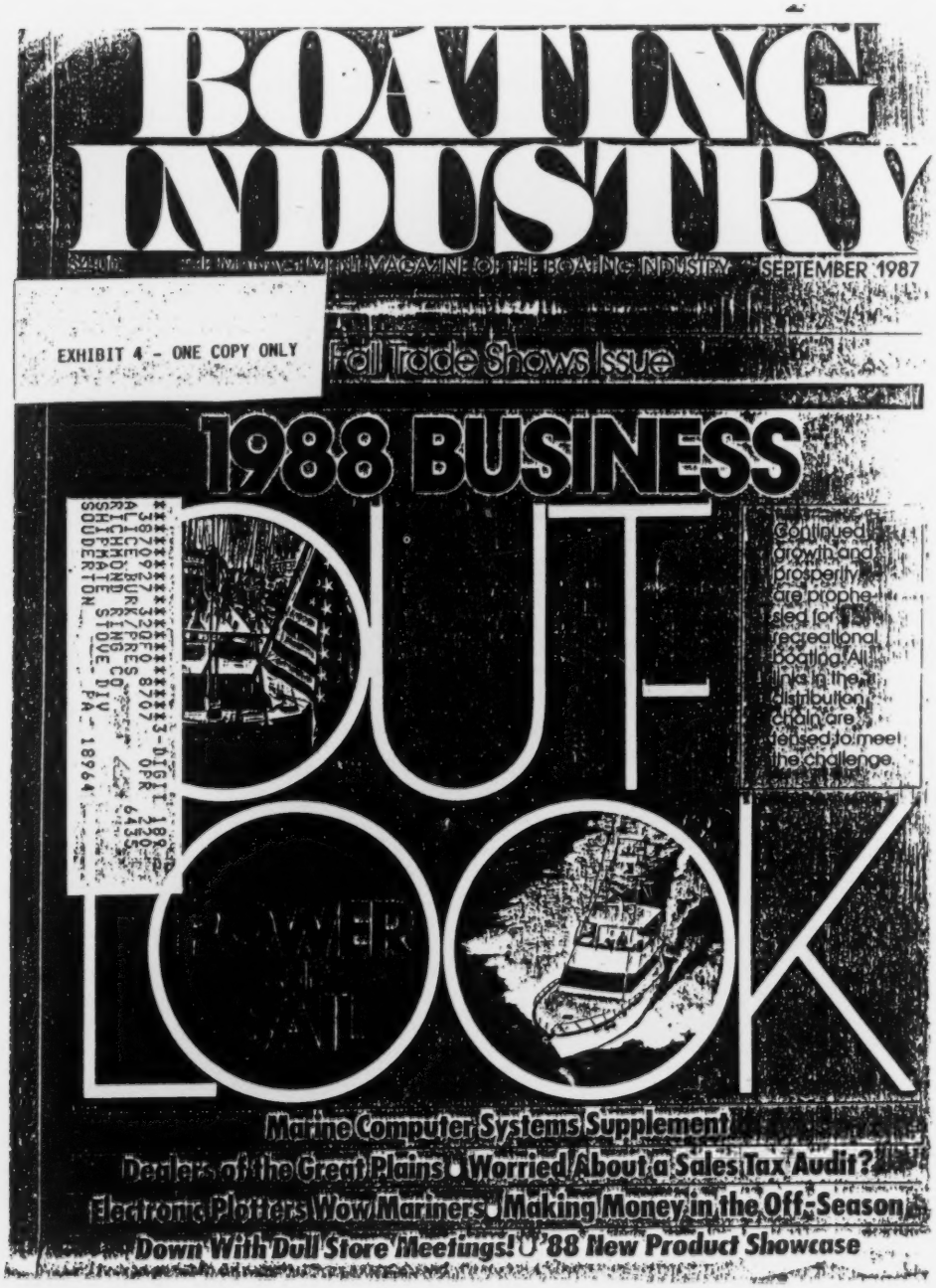

BOATING INDUSTRY
MAGAZINE OF THE BOATING INDUSTRY
SEPTEMBER 1987
EXHIBIT 4 - ONE COPY ONLY
Fall Trade Shows Issue
1988 BUSINESS
OUT-
LOOK
Continued growth and prosperity are prophesied for the recreational boating. All links in the distribution chain are tensed to meet the challenge.
Marine Computer Systems Supplement
Dealers of the Great Plains • Worried About a Sales Tax Audit?
Electronic Plotters Wow Mariners • Making Money in the Off-Season
Down With Dull Store Meetings! '88 New Product Showcase

EXHIBIT 5

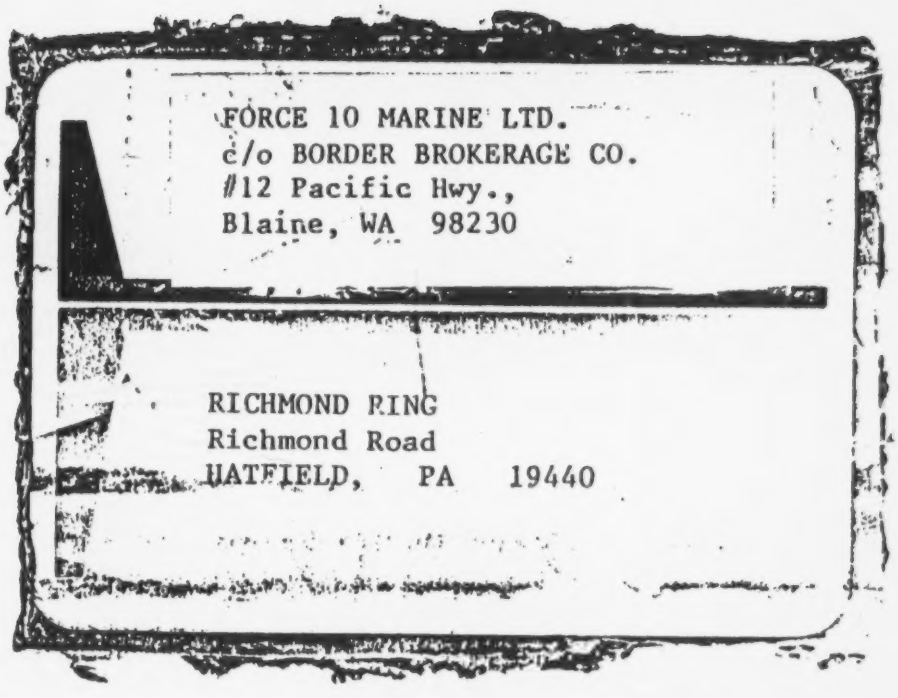

FORCE 10 MARINE LTD.
c/o BORDER BROKERAGE CO.
#12 Pacific Hwy.,
Blaine, WA 98230
RICHMOND RING
Richmond Road
HATFIELD, PA 19440

EXHIBIT 6

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
WASHINGTON, D.C. 20229

MAY 5 1987

CLA-2:CO:R:CV:G
080132 PAM
155291

The Honorable
Dick Schulze
House of Representatives
Washington, D.C. 20515

Dear Mr. Schulze:

Your letter of April 9, 1987, inquired about the tariff status of portable marine stoves imported from Canada. You specifically ask: (1) What is the U.S. tariff rate on marine stoves; (2) Has a Canadian company, Force 10 Marine Ltd. ("Force 10"), been subject to such duties; and (3) Is it common or legal practice for Canadian companies to export their goods to destinations in the United States free on board from the state of Washington, particularly if there is no manufacturing facility in that state? You also asked about Customs regulations on importing the stoves from Canada.

Absent a detailed description of the stoves, we cannot offer definite advice as to their dutiable status. However, we are enclosing a recent court case that deals with marine stoves. The rate of duty for item 653.52, Tariff Schedules of the United States (TSUS), is now 4.2 percent ad valorem.

With regard to the second question raised by your inquiry, after reviewing entries made by Force 10, we have no reason to believe that marine stoves are being imported without the proper duties being assessed thereon. If you have any information to the contrary, we would be pleased to look further into the matter.

Your last question concerned a "common or legal practice" of Canadian companies which ship goods free on board to other states after bringing those goods into the United States through a port in the State of Washington. Once goods are correctly entered into the stream of commerce of the United States, no legal impediment exists which would hinder those goods from being sent elsewhere in the United States. The only legal problem that we foresee would arise if those goods are in some way mislabeled to give the impression that the marine stoves are a product of the State of Washington.

EXHIBIT 6, page 2

Finally, Customs has no special regulations pertaining to the importation of marine stoves.

If we can be of further assistance, please do not hesitate to call on us.

Sincerely,

Gerald J. McManus
Assistant Commissioner
Commercial Operations

Enclosure

EXHIBIT 6 page 3

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WASHINGTON, D.C. 20229
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Slip Op. 85-55

UNITED STATES COURT OF INTERNATIONAL TRADE

BORDER BROKERAGE CO., INC., Plaintiff, v. UNITED STATES OF AMERICA, Defendant.	Before: RESTANI, JUDGE Court No. 81-10-01432

OPINION AND ORDER

[Judgment for plaintiff]

Dated May 10, 1985

George R. Tuttle (Gary C. Cooper) for plaintiff.

Richard K. Willard, Acting Assistant Attorney General, Joseph I. Liebman, Attorney in Charge, International Trade Field Office, Kenneth N. Wolf, United States Department of Justice, Commercial Litigation Branch, for defendant.

Upon consideration of the evidence introduced at trial in the above action held without a jury on September 17, 1984, in Seattle, Washington, and upon consideration of all filings herein the court finds as follows:

Findings of Fact

1. The Dickinson boat stoves and heaters at issue were exported from Canada on January 6, 1981, and entered at the Port of Blaine, Washington, on January 19, 1981.

EXHIBIT 7

Cabin Heaters

Kerosene & Diesel

This compact unit has a double-wall design of heavy gauge satin finish stainless steel which ensures warm air circulation. One tank of fuel will burn for eight hours. The silent, self cleaning pressure burner (rated at 10,000 BTU per hr.) is easily removed for maintenance.

Standard equipment includes: an attached, fully insulated mounting plate, two feet of stainless safety vent pipe with thru-deck fitting and vent cap.

Fuel: Kerosene or Diesel · Size: 10-1/2"W x 7-1/2"D x 18"H
Flue Size: 1-1/4" · Tank Capacity: 3 Pints
Wt.: 22 lbs. Bulkhead Mounted

Coal, Wood or Charcoal

This Shipmate design features a cast-iron firebox with a heavy gauge satin finish stainless steel body and polished brass trim. The heater has its own fully-insulated mounting plate for ease of installation and protection of the ship's bulkhead. Double-wall design. Removable stainless steel ash drawer. *Bulkhead Mounted*

12"W x 9" D x 19"H
Flue Size: 3" · Capacity: 7 lbs. Pea Coal
Firebox: 8" x 4-1/2" x 5-1/2" · Wt. 52 lbs.

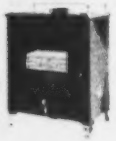
Skippy Cabin Heater

This miniature potbelly stove of heavy cast-iron with a wrought iron pot rail *(brass pot rail available)*. The top, with two removable covers, will hold a coffee pot and a skillet.

Fuel: Solid · Capacity: 2 lbs. Coal or Wood
Firebox: 5" x 10"W x 14"D x 13-1/4"H
Output: Oil 10,000 BTU per hr. • Coal 15,000-18,000 BTU per hr.

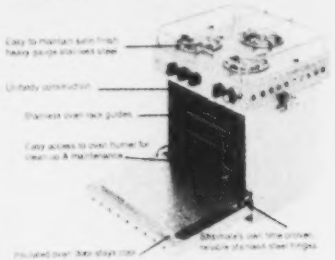
Open Fireplace

The Shipmate sole mounted fireplace is beautiful in black porcelain-enameled cast-iron, heavy gauge stainless steel and polished brass. Double-wall design. Cast iron grate shakes into a removable ash drawer.



Fuel: Solid · Capacity: 7 lbs. Pea Coal
Firebox: Brick-lined 5"x9"x5-1/2" · Flue: 4" · Wt.: 65 lbs.

Shipmate
GALLEY STOVES


Easy to maintain satin finish heavy gauge stainless steel
Unibody construction
Stainless oven rack guides
Easy access to oven burner for clean-up & maintenance
Insulated oven door stays cool
Shipmate's own "time proven" reliable stainless steel hinges

*Shipmate gives the First Mate a stove she'll be confident to use. Isn't the cook more apt to prepare a meal with love in a well-equipped, **safe** galley?*

- Corrosion resistant components
- Three gimbal systems. Choose the one you need:
  G - Bronze external gimbals with swing rate control
  GM - Stainless internal gimbals with swing rate control
  GR - Locking stainless combination rail and gimbals
- Built-in or freestanding models available in all styles
- Stainless steel sea rails removable on all models with the exception of GR models
- Stainless steel burner grates & adjustable pot holders
- Stainless steel removable reflector pans
- Stainless steel oven compartment (eliminates rust and chipped porcelain)
- Two heavy duty oven racks
- Fully insulated oven
- Brass & copper fittings
- No built-in obsolescence

- Shipmate can customize your new stove to your specifications as long as it can be safely engineered
- Custom modifications of gimbals: athwartship gimbaling
- Custom stove sizes
- Additional Pot Holders & Oven Racks available

- For a baking sheet with the complete spec number on the stove or cabin heater which fits the needs of your boat
- For our complete line of Shipmate Accessories

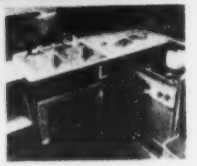
Shipmate
A Trusted Galley Slave Since 1830

Shipmate has been building cast iron ranges for sailing ships since the early 19th century. These stoves are still available for coal or wood fuel in eight sizes ranging from 21" to 42" wide.
Most sizes are available equipped with an oil burner.

Shipmate Gas combination oven/broiler for locker top installation: 2, 3 or 4 burners.

Cabin sole mounted Gas Shipmate for larger vessels: 4 burners with oven & broiler.

Today, Standard Equipment on Hinckley & Bristol Sailing Yachts.



Hinckley & Bristol Yachts enjoy a continuing reputation for excellence. They choose Shipmate as their galley stove.

Shipmate (above) in the spacious galley of a Bristol 41' 1 and (below) aboard the Hinckley Bermuda 40.

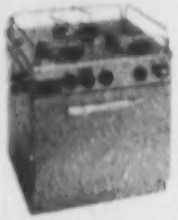
Shipmate
GALLEY STOVES

An Integral Part of Maritime History
Since The Year 1830

Richmond Ring Company
Souderton, PA 18964 USA
(215) 855-2609

Shipmate Gas Stove

Three Burner with Oven & Broiler



Shipmate Gas Stoves are among the safest sea-going gas stoves available. Using a Shipmate gas stove is just like cooking at home. No preheating of the burners is necessary. The height of the gas cooking flame is easily controlled and the Shipmate gas oven is thermostatically controlled. The broiler unit is placed at the top of the oven which gives the cook more usable oven space.

SPECIAL FEATURES

- Stove available for LPG or CNG
- Thermostatically controlled oven temperature
- Oven & broiler burners equipped with automatic safety gas shut-off
- High capacity surface burners rated at 6,000 BTU/hr
- High capacity oven burner rated at 10,000 BTU/hr
- Safety lock control valves for surface burners
- Top mounted oven broiler
- Twelve oven rack positions

Write or Call for complete specification sheet on this model.

SPECIFICATIONS

Wt. 87lbs. W. 20" Oven: 17"W x 13-1/2"D x 12"H
Oven Cubic Inches: 2,750

Mounting Width
S885G : 23"
S885 GM : 20-1/2"

Mounting Width
S885 GR : 21-1/2"

Gas Stove

Three Burner with Oven

The Shipmate three burner Gas Stove has become the classic sea going stove and is an ever popular choice. It will easily fit into the available galley space in most sailboats. If you are converting your galley from a coal stove, it is usually possible to find a space for a gas stove in the same location. This installation ensures ABYC compliance.

SPECIAL FEATURES

- Stove available for LPG or CNG
- Thermostatically controlled oven temperature
- Oven burner equipped with automatic safety gas shut-off
- High capacity surface burners rated at 6,000 BTU/hr
- High capacity oven burner rated at 10,000 BTU/hr
- Safety lock control valves for surface burners
- Three oven rack positions

Write or Call for complete specification sheet on this model.

SPECIFICATIONS

Wt. 58lbs. W. 20" Oven: 17"W x 12-1/2"D x 13-3/4"H
Oven Cubic Inches: 1,630

Mounting Width
S883 G : 23"
S883 GM : 20-1/2"

Mounting Width
S883 GR : 21-1/2"

Gas Stove

Two Burner with Oven

The Shipmate two burner Gas Stove is the perfect option for those who do not see themselves cooking on more than two burners at one time. The advantage of the classic two burner stove is the fact that the burners are centered on the gimbal line - the ideal selection for smaller galley spaces.

SPECIAL FEATURES

- Stove available for LPG or CNG
- Thermostatically controlled oven temperature
- Oven burner equipped with automatic safety gas shut-off
- High capacity surface burners rated at 6,000 BTU/hr
- High capacity oven burner rated at 10,000 BTU/hr
- Safety lock control valves for surface burners
- Three oven rack positions

Write or Call for complete specification sheet on this model.

SPECIFICATIONS

Wt. 58lbs. W. 20" Oven: 17"W x 12-1/2"D x 7-3/4"H
Oven Cubic Inches: 1,650

Mounting Width
S882 G : 23"
S882 GM : 20-1/2"

Mounting Width
S882 GR 21-1/2"

Alcohol or Kerosene

Two or Three Burner with Oven

Choosing Alcohol or Kerosene as your shipboard cooking method requires understanding the difference between the two fuels. Either stove can be installed anywhere - requiring no outboard venting. The alcohol stove is a pressurized system. It can be doused quickly with water making it the safest fuel to use. The kerosene stove, a *popular choice for big cruisers*, features a hotter flame. Both use a two-stage lighting process and require a remote fuel tank.

Shipmate offers a choice two or four gallon tank for fuel storage.

- Large, easily read thermometer on oven door.
- Famous, silent, self cleaning burners.
- Extra large kerosene manifold system for hours of pulse free operation.
- Three oven rack positions.

Write or Call for complete specification sheet on this model.

SPECIFICATIONS

Wt. 63lbs. W. 20" Oven: 17"W x 12-1/2"D x 7-3/4"H
Oven Cubic Inches: 1,650

Mounting Width
783 G, 983 G : 23"
783 GM, 383 GM : 20-1/2"

Mounting Width
783 GR, 383 GR : 21-1/2"

Taunton Stove Company, Inc.
490 SOMERSET AVENUE
NORTH DIGHTON, MASS. 02764
TEL. (617) 823-0786

TASCO ENGINEERING DIVISION
"Mechanical Products for the Electronic Industry"

TASCO MARINE DIVISION
"Boating Products for the Marine Industry"

November 18, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102, Longworth House Office Bldg.
Washington, DC 20515

Subject: Bill H.R.2757

Dear Mr. Leoanrd:

As a U.S. manufacturer of stoves designed for use on marine vessels I have felt considerable market loss this calendar year, due primarily to the unfair trade condition which exists between the U.S. and Canada. Prior to this year the Canadian boat building industry was 21% of my sales on a 3 year average. Currently, we have recorded less than 5% of our year to date total sales in Canada.

A close contact at one former customer revealed to me that the last quote issued to them was a 7% difference in cost between my product and the competitor's (Canadian manufacturer). Clearly, the 11.3% duty ruling has a strong bearing in purchasing decisions and the Canadian manufacturer has a significant market advantage above the border.

Further, Canadian manufacturers enjoy extensive subsidizing of advertising and other promotional costs by the Canadian Government for which a typical manufacturer would budget 10% of his estimated sales. We see their participation in virtually all marine publications and every major trade show, something I would love to be able to afford to do.

As their penetration into the U.S. market grows, I think it's time the U.S. Government did something to protect our manufacturers, or better yet create an environment throughout the U.S. and Canada which does not penalize anyone, an environment which encourages superior engineering and competitive pricing. Unfortunately, we're all working in an industry where price is almost always the determining factor in a purchasing decision.

I request that swift action be taken to establish the tariff. I have no aversion to good competition, however I do not feel we or any other manufacturer should be subject to penalties which result in unfair trade.

Respectfully Yours,

Bruce M. Bodge

Bruce M. Bodge
Vice-President

H.R. 2766

To suspend for a 5-year period the duty on pyromellitic dianhydride (PMDA).
No statements submitted.

H.R. 2917

To suspend for a 5-year period the duty on Bendiocarb.

THIS STATEMENT SUBMITTED BY:
KENNETH D. MORRIS, ESQ.
NOR-AM CHEMICAL COMPANY
3509 SILVERSIDE ROAD
WILMINGTON, DELAWARE 19803

I. H.R.2917 WOULD EXEMPT BENDIOCARB, A PRODUCT MADE PRINCIPALLY IN THE UNITED STATES PRIOR TO ITS EXPORT TO TAIWAN FOR FINAL PROCESSING, FROM DUTY FOR A FIVE-YEAR PERIOD.

The proposed Bill, H. R.2917 (and its identical sister bill S.B.1289) would add a new Item to the Appendix to the Tariff Schedules of the United States (TSUS) to provide a suspension of the Column 1 rate of duty imposed on imports of bendiocarb. As set forth in the Bill, bendiocarb is technically referred to as 2,2,dimethyl-1,3-benzodioxol-4-yl methylcarbamate. The duty would be suspended for a five-year period with respect to articles entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of the Bill. The effective period of the suspension would, therefore, continue through approximately December, 1992, depending on the date of enactment.

For convenience of the Committee's discussions, the International Trade Commission has previously provided comments on the Bill and those comments are attached hereto for further reference as appropriate. (Attachment #1) An identical Bill has also been introduced in the Senate by Senator William V. Roth, Jr., (R-Delaware) and Senator Roth's comments were printed in the Congressional Record on May 28, 1987 at S7303. A copy of those comments is also attached for the Committee's ease of reference. (Attachment #2)

II. THE HISTORY AND BENEFITS OF BENDIOCARB COMPEL PASSAGE OF H.R.2917 AS AN EQUITABLE REMEDY MANDATED BY THE EXTRAORDINARY CIRCUMSTANCES SURROUNDING THE PRESENT IMPORTATIONS.

1. <u>The History and Background of Bendiocarb Amply Demonstrate Its Benefits</u>

NOR-AM Chemical Company, the Company supporting adoption of H.R.2917, manufactures and distributes a wide range of herbicides, fungicides, plant growth regulants, defoliants, and insecticides in the United States. NOR-AM also exports products made in the United States to overseas markets. Since mid-1975 NOR-AM (through its predecessors-in-interest) has been successfully marketing and distributing a pest control product with the tradename FICAM® W throughout the United States. The active ingredient in FICAM® is bendiocarb.

Before discussing our particular product and why the above legislation is needed to remedy current inequities, it is appropriate to mention NOR-AM's presence in Michigan because it is NOR-AM's Michigan plant which was built specifically to produce bendiocarb exclusively. NOR-AM Chemical Company has safely and continuously operated its Muskegon, Michigan plant to produce this product (which is now sold in approximately 80 countries) since mid-1977. FICAM® was first sold in the United States in 1975 under private label by an exclusive distributor which marketed the product until the Michigan plant was able to commence manufacturing in 1977. NOR-AM's investment in its Michigan facility represents a financial undertaking of tens of millions of dollars.

Currently, NOR-AM employs approximately 60 people at its plant. For calendar year 1986 alone, NOR-AM pumped approximately $1,500,000 into Michigan's economy through taxes and wages. NOR-AM has moreover, augmented the plant's capital equipment over the past several years, and the above figure does not include substantial additional monies paid to local contractors, suppliers, and consultants to assist in these capital improvements.

Bendiocarb, produced at our Michigan plant, is a patented and proprietary product belonging exclusively to NOR-AM Chemical Company and its affiliated companies (particularly its overseas affiliated English company formerly known as FBC Ltd.). It is the active ingredient forming the base of widely used pest control products sold both within and without the United States. In the United States bendiocarb is the active ingredient used in formulating TURCAM®, FICAM® W, FICAM® D and FICAM® PLUS®, all proprietary products of NOR-AM.

TURCAM® is used on ornamental trees, shrubs, and turf to control a wide variety of pests including white grubs, chinch bugs, gypsy moths, web worms and Bronze Birch Borers. FICAM® W is a multi-purpose, broad-spectrum spray insecticide for control of ants, fleas, cockroaches and any other public health pests. FICAM® D has been demonstrated to be the product of choice used by pest control applicators in voids, attics, and other non-accessible areas to control carpenter ants, silverfish and many other insects. FICAM® PLUS® is accepted in the marketplace as a potent insecticide for control of German cockroaches and has been shown to provide quicker knockdown of adult fleas.

All of these products are odorless and have safely protected private homes, nursing homes, food establishments, hospitals, apartment houses and many other types of structures since 1975. During this time over 40 million different structures have been treated with FICAM, protecting them from such pests as cockroaches, spiders, fleas, and scorpions. FICAM controls 83 different urban pests. These structures include such sensitive areas as hospitals, restaurants, nursing homes and aircraft. Naturally, it also has a multitude of applications in residences, apartments, and other buildings. It is applied exclusively by certified pest control companies operating independently throughout the United States. It has been estimated that there are currently approximately 11,000 pest control companies throughout the United States who may use FICAM® from time to time.

Overseas, bendiocarb is used in a variety of products. Vector control is only one example. The product has been and continues to be used widely by the World Health Organization for control of diseases such as malaria which are commonly transmitted by mosquitos.

A variation of FICAM (FICAM ULV) is used for mosquito control where mosquitos are resistant to other materials, protecting urban populations from diseases such as encephalitis and "Break-Bone" fever.

The FICAM formulated from bendiocarb is also used to protect homes from serious wood destroying organisms such as termites, and often used to protect sensitive areas such as hospitals, nursing homes, etc. where many other materials simply cannot be used. TURCAM, NOR-AM's bendiocarb-based turf and ornamental insecticide, is one of the few products that can protect birch trees from Bronze Birch Borers as well as protecting turf and ornamentals in many areas of this Country from pests such as black vine weevils, scales and grubs.

2. Currently, Bendiocarb is Imported As Finished Product and Duty is Paid Based on Declared Value, Approximately 85% of Which Results Exclusively From Manufacturing Done in Michigan.

Historically, the Company has been able to manufacture bendiocarb from start to finish at its Michigan facility. However, due to the unavailability of an essential raw material domestically, the Company has found it necessary over the past several years to manufacture only an intermediate in Michigan. That intermediate chemical is then shipped to a Taiwanese company for reaction and manufacture under contract into the final product, the active ingredient bendiocarb. The intermediate at the time of its exportation to Taiwan from Michigan comprises approximately 85% of the value of the final bendiocarb as it is declared at the port of entry when it is re-imported into the United States as the finally finished active ingredient. Bendiocarb is imported in final form from the Taiwan manufacturing facility as a dry powder in drums. It is then shipped back to the Company's Michigan facility where it is formulated into TURCAM®, FICAM® W, FICAM® D, and FICAM® PLUS®.

NOR-AM Chemical Company's Michigan plant is the only worldwide producer of the active ingredient bendiocarb. While our English affiliated company (formerly FBC Ltd.) is capable of formulating the active ingredient bendiocarb into FICAM® W and FICAM® D, NOR-AM's Muskegon facility is also the only facility in the world able to formulate all four products (FICAM® W, FICAM® D, FICAM® PLUS®, and TURCAM®) from the active ingredient.

At the time of bendiocarb's entry from Taiwan into the United States the full gross invoice value is declared for duty purposes. Approximately 85% of the value declared for duty purposes represents the intermediate manufactured in the United States. In other words, approximately 85¢ of every $1.00 declared for duty assessment at the time of entry represents product produced at our Michigan plant. We are, in essence, paying duty on what is 85% American-made. We have estimated that for each of the next several calendar years (1988 and beyond) NOR-AM will pay approximately $600,000-$700,000 in duty to import a product, 85% of which is made in Michigan.

Pursuant to the Generalized System of Preferences (GSP) established by Congress in the Tariff Act and Schedules, imports from specified countries are afforded duty-free status. Imports, such as bendiocarb, from countries like Taiwan are otherwise eligible for duty-free treatment, provided all applicable criteria are met. In this case because of the high American-made value (approximately 85%) of the product which is finally imported into the United States from Taiwan, NOR-AM is unable to satisfy the value-added test under GSP regulations. Generally, the GSP regulations require that the value added in Taiwan be 35% or more of the value of the article at the time of its entry into the United States.

Ironically, the net result of the current GSP regulations may be to force NOR-AM to move its U.S. production off-shore -- thereby resulting in a loss of U. S. jobs.

NOR-AM's Muskegon, Michigan plant represents a sizeable investment, from which the Company would not lightly walk away. But the current inequities to which the Company is now subject cries for attention sooner, rather than later. Paying hundreds of thousands of dollars in duty every year on what is essentially American-made strikes us as extraordinarily unfair and inequitable. It not only penalizes a United States manufacturer which has invested and continues to invest considerable monies and resources into facilities within the United States, but also has the effect of promoting the export of jobs. We know only too well that the $600,000 to $700,000 in approximate duties which we can expect to pay over each of the next several years will not

have to be paid if production for this product is shifted totally to an overseas source. Surely that could not have been the intent of Congress.

In view of the facts as noted above, NOR-AM believes this legislation is particularly well adapted to solve a bona fide need in a fair and equitable manner. Particularly in view of the fact that no other person or firm in the United States would be adversely affected, we vigorously support this legislation and respectfully urge its prompt passage.

III. SUMMARY AND CONCLUSION

For all of the foregoing reasons, it is respectfully submitted that H.R.2917 (SB 1289) should be passed by Congress and sent to the President at the earliest opportunity. NOR-AM Chemical Company believes that the above legislation is fundamentally fair and consistent with Congress' well-founded intent to promote U.S. manufacturing and secure U.S. jobs. Particularly where the by-product of such legislation will be to insure the uninterrupted production of a product as much needed and as greatly benefiting the public health both in the United States and around the world as FICAM®, we submit that here surely is an opportunity for the positive expression of that legislative intent.

Attachment #1

August 11, 1987

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE ON S. 1289, 100TH CONGRESS, A BILL TO TEMPORARILY SUSPEND THE DUTY ON BENDIOCARB

Section-by-section analysis

The proposed bill would add new item 908.13 to the Appendix to the Tariff Schedules of the United States (TSUS) to provide a suspension of the column 1 rate of duty 1/ on imported bendiocarb. The duty would be suspended with respect to articles entered, or withdrawn from warehouse, for consumption on or after the 15th day after the date of enactment of the bill. The effective period of the suspension would continue through December 31, 1990. The column 2 rate of duty 2/ would remain unchanged.

Background

Description and uses.--Bendiocarb, more technically referred to as 2,2-dimethyl-1,3-benzodioxol-4-yl-methylcarbamate, is produced synthetically by a series of chemical reactions using benzenoid chemicals as starting materials. Bendiocarb is an insecticide used in various formulations to control insects such as cockroaches, fleas, and termites. Specifically, it is

1/ The rates of duty in the column numbered 1 are most-favored-nation (MFN) rates and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(d) of the TSUS. The People's Republic of China, Hungary, Poland, Romania, and Yugoslavia are the only Communist countries eligible for MFN treatment. However, MFN rates would not apply if preferential tariff treatment is sought and granted to products of developing countries under the Generalized System of Preferences (GSP) or the Caribbean Basin Economic Recovery Act (CBERA), or to products of Israel or of least developed developing countries (LDDC's), as provided under the Special rates of duty column. Because most column 1 duty rates represent the final stage of the reductions negotiated in the Tokyo Round, most imports from LDDC's enter free of duty under the GSP or are dutiable at column 1 rates.

2/ The rates of duty in the column numbered 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(d) of the TSUS.

a non-volatile, odorless product that is often used in sensitive locations such as hospitals and nursing homes, where more pungent chemicals are less suitable.

Purpose.--No statement concerning the bill appeared in the Congressional Record at the time it was introduced. However, in a written submission to Senator Roth, a representative of the Nor-Am Chemical Company stated that formerly bendiocarb was manufactured entirely in the United States. 1/ He noted that an important ingredient, methyl isocyanate, is no longer available in suitable quantities in the U.S. merchant market. As a consequence, he said that the company produces another intermediate in the United States and ships it to Taiwan, where it is reacted with methyl isocyanate (produced in Taiwan) to make bendiocarb. Bendiocarb is then exported back to the United States. He added the following comments: "Although the General System of Preferences (GSP) affords imports of eligible items from GSP countries (e.g., Taiwan) duty-free treatment, in this case Customs Service has disallowed duty-free status because the costs of the processing operations in Taiwan are less than 35 percent of the the value of such article at the time of its entry into the United States. . . . Customs has applied very technical rules to deny duty-free status in this instance requiring full duty on bendiocarb imported back into the United States, resulting in discriminating treatment against a United States producer in favor of other GSP countries--a result that cannot have been the objective of the legislation." 2/

1/ Kenneth Morris, Nor-Am Chemical Company, June 8, 1987.
2/ Ibid.

Comparison with present law

Tariff treatment under the TSUS.--Bendiocarb is currently classified in TSUS item 408.24, a provision covering products chiefly used as insecticides, with column 1 rate of duty of 6.9 percent ad valorem and a column 2 duty rate of 7 cents per pound plus 41 percent ad valorem. Prior to the Trade Agreements Act of 1979, this insecticide was assessed a column 1 duty rate of 1.7 cents per pound plus 12.5 percent ad valorem. As a result of the Tokyo Round of Multilateral Trade Negotiations, a series of staged reductions in the column 1 rate of duty was implemented, leading to the final and current rate of 6.9 percent ad valorem.

Imports of this insecticide are eligible for duty-free entry under the Generalized System of Preferences (GSP). 1/ This chemical is also eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act 2/ and the United States-Israel Free Trade Area Implementation Act of 1985. 3/

1/ The GSP affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976 and before July 4, 1993. It provides duty-free entry to eligible articles imported directly from designated beneficiary developing countries.

2/ The CBERA affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67 and implemented by Presidential Proclamation 5133 of November 30, 1983, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984; it is scheduled to remain in effect until September 30, 1995. It provides duty-free entry to eligible articles imported directly from designated Basin countries.

3/ Preferential rates of duty in the Special column followed by the code "I" reflect the rates of duty applicable to products of Israel under the United States-Israel Free Trade Area Implementation Act of 1985, as provided in general headnote 3(e)(viii) of the TSUS. Where no rate of duty is provided for products of Israel in the Special column for a particular tariff item, the rate of duty in column 1 applies.

Tariff treatment under the proposed Harmonized System (HS). 1/--This insecticide is classified, along with 2-ethoxy-2,3-dihydro-3,3-dimethyl-5-benzofuranylmethanesulfonate, in HS subheading 2932.90.10. The column 1 duty rate upon implementation of the HS is proposed to be 6.8 percent, while the column 2 duty rate is proposed to be 15.4 cents per kilogram plus 40.5 percent ad valorem. 2/

Structure of the domestic industry and domestic production

During 1982-85, bendiocarb was produced by only one firm in the United States, Hor-Am, at its Muskegon, Michigan plant. U.S. production data for this period cannot be published because to do so would reveal confidential business information. In 1985, this firm stopped producing this insecticide because it could no longer obtain a major intermediate, methyl isocyanate, an extremely poisonous gas. Since the accident at Bhopal, India, the material has not been available in the U.S. merchant market. Although there are other insecticides registered with the Environmental Protection Agency that are suitable for use in hospitals, bendiocarb is among the least volatile products on the market. In many cases, volatility and odor are important considerations in determining the user's choice of insecticide.

1/ The Harmonized System is intended to serve as the single modern product nomenclature for use in classifying products for customs tariff, statistical, and transport documentation purposes. Based on the Customs Cooperation Council Nomenclature, the HS is a detailed classification structure containing approximately 5,000 headings and subheadings describing articles in trade. The provisions are organized in 96 chapters arranged in 20 sections which, along with the interpretative rules and the legal notes to the chapters and sections, form the legal text of the system.

2/ Source: Trade Policy Staff Committee, Conversion of the Tariff Schedules of the United States into the Nomenclature Structure of the Harmonized System, Revised, Showing Administrative Changes Approved by the Trade Policy Staff Committee (October 1986).

U.S. imports

There were no imports of bendiocarb until the middle of 1985. In 1985, Nor-Am imported approximately 80,000 pounds from Taiwan; in 1986, imports from Taiwan increased to approximately 300,000 pounds. There were no column 2 sources of imports.

U.S. exports

U.S. export data for this insecticide are not available as they are reported under a residual (basket) Schedule B provision. Industry analysts estimate that as much as two-thirds of U.S. imports are later exported.

Apparent U.S. consumption

Since production and export data are not readily available, Commission staff is unable to calculate apparent U.S. consumption for 1982-86.

Effect on revenue

In a phone conversation, a Nor-Am spokesman estimated if the recent import levels and typical product use remain unchanged, the potential annual loss of customs revenues would be approximately $600,000-$700,000 during 1987-89. 1/

Technical comments

In section 2, the comma after "warehouse" should be deleted and one inserted after "consumption".

1/ Mr. Kenneth Morris, Nor-Am Chemical Company, July 14, 1987.

Attachment #2

tions throughout the Nation contribute research and development to the United States space program, and to the strength of the economy of the Nation;

Whereas the space program reflects technological skill of the highest order and the best in the American character—sacrifice, ingenuity and the unrelenting spirit of adventure;

Whereas the spirit that put man on the moon may be applied to all noble pursuits involving peace, brotherhood, courage, unity of the human spirit; and

Whereas [illegible] of the United States of America in Congress assembled, That July 20, 1987, is designated as "Space Exploration Day." The President is authorized and requested to issue a proclamation calling upon the people of the United States to observe the day with appropriate programs, ceremonies, and activities.●

By Mr. ROTH:

S. 1289. A bill to temporarily suspend the duty on Bendiocarb; to the Committee on Finance.

DUTY SUSPENSION ON BENDIOCARB

● Mr. ROTH. Mr. President, I rise to introduce a bill to temporarily suspend the duty on a chemical, 2,2-dimethyll-1,3-benzodioxol-4-YL methyl carbamate, also known as bendiocarb.

I am introducing this bill on behalf of NOR-AM Chemical Company of Wilmington.

Bendiocarb is a pesticide which is authorized for use by pest control companies in controlling fleas, ants, and roaches. It is widely used in hospitals, nursing homes, and other institutions.

I understand that there is no domestic production of this chemical in the United States.

Suspending the 8.6 percent duty will assist NOR-AM to keep prices down and will enable the product to be more readily available for pest control purposes.

I hope the Congress will act expeditiously to approve this duty suspension bill.●

By Mr. SASSER (for himself and Mr. GORE):

S. 1290. A bill to direct the Secretary of the Interior to acquire certain real property adjacent to the Andrew Johnson National Historic Site in Greeneville, TN, for inclusion within the national cemetery located in that site; to the Committee on Energy and Natural Resources.

ACQUISITION OF CERTAIN REAL PROPERTY

● Mr. SASSER. Mr. President, I am introducing legislation today that will direct the Secretary of the Interior to acquire and administer 1.2 acres adjacent to the Andrew Johnson National Historic Site in Greeneville, TN. The land would be used to expand the National Cemetery located within the National Historic Site.

I am pleased that Senator GORE has joined me as an original cosponsor of this bill.

The acquisition of this land is necessary because there are less than 250 gravesites left in the cemetery. If nothing is done to expand the grave area, the cemetery will be filled within the next 7 to 8 years according to park authorities.

The legislation I offer today will give the cemetery enough land to be used to expand the cemetery has been procured by the Marine Corps League in Greeneville in cooperation with the Veterans of Foreign Wars [VFW]. The land would be donated free to the U.S. Government to be administered as part of the Andrew Johnson National Historic Site.

Thus, my legislation will not cost taxpayers any additional money. It merely authorizes the Secretary of the Interior to acquire and administer the donated land as part of the National Historic Site.

Mr. President, I commend the Marine Corps League and the VFW of Greeneville for this generous offer of land. I trust my colleagues in the Senate will now act promptly to approve my bill which allows the Federal Government to accept their offer. We must ensure that eligible veterans in the east Tennessee area will have an appropriate and dignified final resting place.●

By Mr. WILSON:

S. 1291. A bill for the relief of Joeri DeBeer; to the Committee on the Judiciary.

RELIEF OF JOERI DEBEER

Mr. WILSON. Mr. President, I rise today to introduce a bill that will confer permanent residency alien status on a young man named Joeri DeBeer. I believe the passage of this legislation is the most humanitarian response to the tragic circumstances which have confronted Joeri since his arrival in the United States.

Joeri is a soft-spoken Dutch national currently residing in Oakley, CA. After enduring years of turmoil, he is now enjoying the warmth and comfort of a stable, loving home with his legal guardians, Sid and Jennie Ward. He has enrolled in Diablo Valley College in nearby Pleasant Hill and is doing very well in his freshman year there. Such contentment is very new to Joeri, and unfortunately it may be very short lived. The Immigration and Naturalization Service is seeking to deport Joeri, separating him from the family life he so desperately needs.

Joeri's ordeal began in 1983 when he was living in Saudi Arabia with his mother and stepfather. It was then that he first met Phil Parsons, a United States citizen residing in Saudi Arabia, who shared Joeri's interest in the sport of motorcycle racing known as motocross.

In the fall of 1983, Mr. Parsons invited 15-year-old Joeri to return to America with him, promising that he would make the boy a motocross champion. With Mr. Parsons as his legal guardian, Joeri entered the United States on a student visa in January of 1984.

After they arrived in the United States, Mr. Pound himself completely alone in a strange country except for his legal guardian who was inflicting physicial, emotional, and sexual abuse upon him. Psychological reports conform that Joeri was under extreme duress at this time, struggling to understand his own adolescent fears and insecurities as well as to survive the constant torment of his life with Mr. Parsons. Joeri had little contact with his mother, who had released him to Mr. Parsons, and his real father made no attempts to contact him. Although Joeri tried to communicate his hatred of Parsons' brutal advances, Mr. Parsons continued to victimize the boy for several months, knowing Joeri had no where else to turn.

This intolerable situation was at the root of what was to happen.

On April 9, 1985, Parsons again attacked the boy. Joeri resisted and again tried to reason with Parsons. Incensed by the rebuff, Parsons tried to strangle Joeri, but the boy escaped. When Joeri returned home, Parsons again attacked him. In that moment of fear and frustration, Joeri shot and killed the molester.

In June of 1986, Joeri was tried and convicted for his acts. The horrible circumstances leading to this action made such a tremendous impact on the jurors that at the time of sentencing each juror stepped forward to plead for leniency in the sentencing of Joeri. The judge, Robert R. Fitzgerald, readily accepted the jurors pleas and gave Joeri a suspended sentence with 3 years probation.

Joeri was released to the legal custody of the Ward family. Their home provides for him the kind of security he needs to recover from the traumatic events of the past 3 years. But the Immigration and Naturalization Service has issued a notice indicating its intent to deport him, saying his conviction was for a crime of "moral turpitude" and that his student visa has expired. The INS has continued to pursue Joeri's deportation, in spite of a recommendation against deportation issued to the INS by Judge Fitzgerald.

Unfortunately, the INS has refused to accept this recommendation. The case is currently pending at the Board of Immigration Appeals. But even if this decision is favorable, it would only reinstate Joeri's student status and prevent his immediate deportation. It would not provide for Joeri's much greater need—that of a secure and loving home. This need can only be met by the passage of this bill conferring legal permanent residency on Joeri.

The tremendous outpouring of compassion Joeri has received from those

H.R. 2947

To suspend for a 3-year period the duty on carfentanil citrate.

DEPARTMENT OF
SPECIAL CLINICAL SCIENCES

College of Veterinary Medicine
Box J-6, JHMHC
Gainesville, Florida 32610
(904) 392-2792

THE UNIVERSITY OF FLORIDA

December 2, 1987

Honorable Sam Gibbons
Committee on Ways and Means
Subcommittee on Trade
U.S. House of Representatives
Washington, DC 20515

RE: H.R. 2947; Suspension of duty on carfentanil citrate for 3 year period

Dear Mr. Gibbons:

I am a veterinarian specializing in zoo and wildlife medicine at the College of Veterinary Medicine, University of Florida, Gainesville, Florida. I also have extensive experience in evaluation of pharmaceuticals for the restraint and handling of wild and exotic species.

Carfentanil citrate is a highly specialized drug produced by a company in Belgium and must be imported into the United States. Carfentanil use is entirely within the exotic animal segment of veterinary medicine and has no use in domestic animals. This drug has enabled large exotic species, such as elephants, to be handled with greater safety to the handlers and to animal.

Continued imposition of the current 16.6% duty level on this specialized compound will only increased the cost to state and local agencies as well as research institutions. I urge to take favorable action on H.R. 2947 to suspend this excessive duty on this unique and needed drug.

Sincerely,

Elliott Jacobson

Elliott Jacobson, DVM, PhD

EJ/nr

EQUAL EMPLOYMENT OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

THE
ROBERT W. WOODRUFF HEALTH SCIENCES CENTER
OF
EMORY UNIVERSITY

MORTON S. SILBERMAN, D.V.M.
University Veterinarian

P.O. Drawer KK
Atlanta, Georgia 30322
(404) 727-7428

December 1, 1987

The Honorable Sam Gibbons
Committee on Ways and Means
Subcommittee on Trade
U.S. House of Representatives
Washington, DC 20515

RE: H.R. 2947, Suspension of duty on carfentanil citrate for 3 year period

Dear Congressman Gibbons:

I am the past Executive Director of the American Association of Zoo Veterinarians and currently engaged in work with exotic and wild species in addition to my capacity as University Veterinarian for Emory University.

Carfentanil is solely for use in wild and exotic species and has no applicable use in human or veterinary medicine. The availability of carfentanil citrate to the veterinarians working in zoos and national wildlife agencies enables safe and effective capture and handling of species that previously could not be handled. Due to the highly specialized nature of this drug, it must be imported directly from Belgium. The 16.6% import duty currently in force will greatly increase the cost of this drug to the publicly funded zoos.

In an effort to insure that this unique and highly useful pharmaceutical will continue to be available to the zoo veterinarians throughout the country, I urge favorable action on H.R. 2947 to suspend the current 16.6% duty on carfentanil citrate.

Sincerely,

M.S. Silberman, D.V.M.

H.R. 2981

For the relief of Princeton University, Princeton, New Jersey.
No statements submitted.

H.R. 3059

To extend the filing period for reliquidation of certain imports.
No statements submitted.

H.R. 3139

To extend for 3 years the existing suspension of duty on certain brussels sprouts.
No statements submitted.

H.R. 3211

To amend the Tariff Schedules of the United States by repealing item 807.00 relating to certain articles assembled from abroad from fabricated components which are products of the United States.

December 2, 1987.

Robert J. Leonard, Chief Counsel.
Committee on Ways and Means.
U.S. House of Representatives, Room 1102
Longworth House Office Building.
Washington, D.C. 20515.

Sir:

In reference to H.R. 3211, as a contractor providing low cost labor services to U.S. companies, I have been involved with 807.00 since 1969.

Over the years this item has been the subject of repeated analysis and studies. The result of all the concern has generally been an agreement that item 807.00 is beneficial to the U.S. companies that use it, by allowing them to use low cost labor on the U.S. border and at other "offshore" locations, without being penalized with unfair U.S. taxation on U.S. materials and goods used in the foreign manufacture.

The chief advantage is to the users of U.S. materials and components. This has to be a positive effect on U.S. employment. Imposing import taxes on U.S. goods would give an edge to already lower cost materials sourced in the Far East and other efficient manufacturing locations.

807.00 provides a balancing effect to the more costly U.S. manufacturers.

It also has a secondary but beneficial effect on U.S- Mexico labor intensive operations, thereby keeping a substantial percentage of the money paid for foreign labor, back in border cities and in the U.S. trade balance. By favoring the use of U.S. materials, 807.00 makes it important to keep the manufacturing close to the U.S., to avoid several thousand miles of transportation costs to the Far East.
This helps Mexico to keep it's population on the Mexican side of the border.

Mr. LaFalse is either shortsighted or misinformed, or worse. The effects of 807.00 have been studied as much as possible. Repealing it would work in favor of Far East manufacturers, who would regain some of their cost competitiveness; it would drive some of the U.S. manufacturing being performed by Japanese and other Far East companies, back to their countries, since they would be penalized on the use of U.S. materials exported for assembly into some of their products.

Removing 807.00 would not result in more U.S. employment. U.S. companies losing this small edge in costs would probably abandon the products, or go out of business.

It is not easy for U.S. executives to take their manufacturing "offshore", even if it is only to the U.S. border. Contrary to Washingtonian views, it is not "greed" but desperation that forces responsible business men to seek competitiveness in the international arena, where business is now conducted.

Taking U.S. operations to another country, going through the frustrations and shock of different cultures and the complexities of other government's regulations, is not a step taken lightly or out of selfishness or other lesser considerations. It is a risky, difficult and worrisome process, and it is not done unless out of sheer survival considerations. 807.00 is not a determinant in this process, it is just a minor convenience and a fair measure.

To summarize:

807.00 is an item that favors U.S. manufacturers.

It is a secondary consideration in the process of seeking lower costs through "offshore" processing.

It's repeal would penalize users of U.S goods, raise costs of U.S products assembled in a foreign location, and make foreign manufacturers more competitive.

It's repeal will not benefit U.S. employment; it will make a bad situation worse.

There is no room in international competition for ideologically motivated measures such as H.R. 3211. The Congress of the U.S. should get out of the way of people trying to be productive and paying for their trillion dollar Federal government, whether we like it or not.

These statements reflect my personal position on the subject of the repeal of Item 807.00, based on my experience of 18 years in the industry.

Ernesto Bravo, General Manager.
Alpha Assembly Technologies, Inc.
1685 Precision Park Lane. Suite J.
San Diego, CA. 92073.

ALTUS CORPORATION
1610 Crane Ct.
San Jose, CA 95112
(408)436-1300

November 25, 1987
Alt File: 5912

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Longworth House Office Building
Room 1102
Washington, DC 20515

Dear Sir:

This is an appeal to the Committee to reject H.R.3211 which would repeal item 807.00.

We have utilized item 807.00 for over five years. It has been instrumental in our ability to compete with Japanese, Taiwanese and Korean battery imports. Our factory in Santa Ana, California employs over 130 people in the finishing, testing, packaging and distribution of sealed lead acid batteries.

We ship components manufactured by suppliers throughout the United States to Mexicalli, Mexico for processing and assembly, prior to being returned to the United States for completion as described above. This has enabled us to compete from a price standpoint against very aggressive Asian competition. It has also enabled us to compete in the European market and do exporting which is very price sensitive.

Repeal of item 807.00 would add costs to our product which is already only modestly profitable. If we are unable to profitably compete with the Asian battery companies we would be forced to close our Santa Ana operations and withdraw from what is presently a $15 million business of which approximately 25% is shipped overseas.

Clearly such an action would be harmful to our company, certainly our terminated employees would suffer, as would our suppliers. Our trade deficit would also be further affected both by the increase in Asian deliveries to the United States and the loss of United States exports to Europe.

Lastly, it does not seem to be in the best interests of the United States to damage the economy of our neighbor in Mexico in any way. Further unemployment across the border only adds to our immigration problems and the precarious financial conditions of Mexico is not in our best interests and further damage inflicted by this type of legislative action is short sighted at best.

As such we strongly urge the Committee and the Congress not to enact H.R.3211.

Sincerely,

Douglas P. Crane
President

87-53

SUBMITTED STATEMENT OF MARK A. ANDERSON, INTERNATIONAL ECONOMIST AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ON H.R. 3211, A BILL TO AMEND THE TARIFF SCHEDULES OF THE UNITED STATES BY REPEALING TSUS ITEM 807

DECEMBER 4, 1987

The AFL-CIO welcomes this opportunity to present its views in favor of H.R. 3211. The AFL-CIO strongly supports repeal of TSUS item 807.00 as one way of encouraging domestic production and reducing this nation's massive trade imbalance.

The Federation believes that the use of this tariff item has contributed to the loss of domestic employment by encouraging imports and providing an incentive for the transfer of U.S. production to foreign countries. In addition to harming the domestic economy, the Federation believes that this tariff break does little to aid the development of the exporting countries.

The harmful impact of this tariff exemption is of grave and longstanding concern to the AFL-CIO and to the workers we represent. Seventeen years ago, in testimony before the U.S. Tariff Commission, the Federation expressed its opposition to this provision explaining: "Item 807 is one small loophole in the tax structure for the advantage of U.S. based multinational companies. It operates as a lubricant for the growing export of U.S. capital, which is a major factor in America's balance of payment difficulties. It provides financial encouragement of foreign production, by U.S. firms, of goods that are sold in the U.S. market. It is a factor in the deterioration of both the volume and composition of the U.S. trade balance." . . . "Continued delays in repeal of 807 and similar sections of the Tariff Code encourage the growth of these operations, with the displacement of U.S. production and employment."

When that testimony was given the total value of 807.00 imports was about $2 billion. By 1985 that value had reached $30 billion, and is no doubt higher today. It is an understatement to say that our worst fears have been realized.

The continued existence of governmental incentives like 807.00 make little sense at a time when domestic industry and employment are suffering under record and unprecedented trade imbalances. Last year the U.S. experienced a merchandise trade deficit of $170 billion, of which $145 billion was for manufactured goods alone. While domestic demand has increased steadily over the last few years, that demand has been satisfied almost solely by imports, rather than increases in domestic production. Employment in manufacturing has declined by some 2 million over the last seven years and estimates of total jobs displaced by trade are millions higher. 1987 has shown no improvement in this dismal picture.

There is widespread recognition that the huge imbalance in America's external accounts poses a clear and present danger to this country's economic well being. To turn this situation around, domestic production must be inhanced to boost exports and reduce this country's reliance on imports.

Rather than contributing to these goals, Item 807 actually serves to subvert progress toward their achievement. U.S. exports are not aided because there are no real exports under this provision. By definition the U.S. content is returned. Imports certainly are not reduced. Indeed, they are promoted by easing the transfer of domestic production to countries that serve as export platforms to the American market for transnational enterprises.

Public interest in the impact of this tariff provision has recently been growing, spurred in no small measure by the U.S. Commerce Department's attempted sponsorship of a 1986 conference in Acapulco that was designed to encourage U.S. investment in Mexico's Maquiladora Program. Companies involved in this program are heavy users of 807 and its operation is illustrative of the provisions general impact, particularly insofar as low wage countries are concerned.

In 1970, there were some 120 companies employing about 19,000 workers in the Mexican border program. Today it is estimated that more than 800 plants are in operation, employing more than 300,000 workers. The value of 807 imports from Mexico has skyrocketed from $145 million in 1969 to 5.5 billion in 1985. The dutiable portion of those imports, or the value added in Mexico has also increased during that period from 34 percent to 47 percent.

The motivations for the use of Item 807.00, particularly in a country like Mexico are clear, and center almost wholly on its advantages when used in conjunction with cheap labor. The promotional brochure for the Conference mentioned above emphasized this reality in listing the so-called advantages of Mexico's Maquiladora program." . . . An even higher potential for profit. . . a highly trainable workforce. . . low cost foreign labor. . . duty free importation of equipment. . . U.S. customs laws which allow American parts and components to be exported, repaired, processed or assembled abroad and then imported back into the U.S. with duties paid only on the value added. . ." While tariff breaks, the intricacies of U.S. custom procedures, various tax advantages, and Mexican regulations, or their absence were no doubt examined in detail at the conference, cheap labor appeared to take center stage. As reported in a number of American newspapers, one participant was quoted "The bottom line is this. Your cost per Mexican worker is 69 cents an hour versus at least $9.00 in the States. That's a saving of $15,000 per year per worker."

The attraction of cheap labor was also noted in a recent USITC publication concerning these tariff provisions. "Operations using Item 807.00 in LDC's tend to be affiliated with U.S. producers. These are basically assembly facilities that have gone 'offshore' to take advantage of lower labor rates."

What isn't explained, and what is most difficult for American workers to understand is why the U.S. government maintains programs that aid and abet this export of jobs. That large numbers of jobs are transferred by American companies in this fashion cannot be in serious dispute. In the case of Mexico, they can virtually be counted. If this production had remained in the U.S. tens of thousands of American workers would now be gainfully employed. Proponents of Item 807.00 attempt to blunt this reality with a mere assertion; that domestic employment would suffer even greater losses in the absence of this governmental incentive. The AFL-CIO believes that in evaluating public policy, facts should carry more weight than predictions.

Beyond the immediate question of jobs, the use of 807, particularly in a country like Mexico turns the traditional concept of international trade on its head, and raises real questions about the future of American industry. Production in Mexico's in-bond plants is almost entirely destined for the U.S. market. In fact, the Mexican government essentially prohibits these goods from entering their own domestic economy. Here, an industry's competitiveness, or a nation's comparative advantage is not determined on the basis of the cost or quality of a completed product. Rather, comparisons can now be made for each stage of the production process in deciding on foreign or domestic sourcing. The historic strength of the U.S. economy has been based on a variety of factors including a highly educated, productive and well-paid workforce, ample capital and natural resources, innovative production techniques, strong managerial skills, and continued technological advances. Together, these elements have led to the high standard of living enjoyed by so many Americans. This wealth, however, and its continued growth requires high income levels. Mexico's in-bond program, together with U.S. government incentives, permit a company to separate decent and justified wage levels from all other aspects of production. Mexico's single comparative advantage is the poverty of its citizens and their willingness to work for subsistence wages. The skill, productivity and contributions of American workers become irrelevant in this context, and the growth of this activity threatens one of the essential pillars of the American economy. No matter how productive, U.S. workers cannot compete with labor costs of less than $1 an hour.

Item 807, together with other U.S. programs like the Generalized System of Preferences and Foreign Trade Zones, encourage the establishment of low wage enclaves that are basically within the U.S. market but not within U.S. territory. Producers are able to disregard not only U.S. wage rates, but important domestic regulations concerning such things as occupational safety and health and environmental protection. With this structure, any developmental gains by Mexico are marginal at best. Subsistence wages do not generate the demand necessary for a healthy and growing economy. Even if permitted, the workers could not afford to purchase the products they help produce. Claims by some that the existence of these plants boosts the economy of the border region are simply not credible in light of $4 a day wages.

The AFL-CIO believes that the only benefits derived from the existence of 807 are reaped by transnational enterprises through increases in profits. This however, cannot offset the harm done to the thousands of Americans whose livelihoods have been sacrificed in the pursuit of those profits.

U.S. public policy must be redirected to encourage investment and production at home if this country is going to meet the challenge of international competition. Repeal of 807, through the enactment of H.R. 3211, would be one step in that direction.

AMERICAN APPAREL MANUFACTURERS ASSOCIATION

December 11, 1987

The Honorable Sam M. Gibbons
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1111 Longworth House Office Building
Washington, DC 20515

Dear Chairman Gibbons:

The American Apparel Manufacturers Association wishes to register its opposition to H.R. 3211, a bill which would repeal Section 807 of the Tariff Schedules of the United States.

The AAMA is the central trade association for domestic manufacturers of garments. Our members are located in virtually every state, producing every type of garment and accounting for about two-thirds of domestic production.

Our Association supports the retention of Section 807 for garment production for two reasons: It provides many of our members an alternative to foreign sourcing and it is good foreign policy for the United States.

The apparel industry in this country is being severely challenged by imports from low-wage countries, primarily in the Far East. Imports have taken 52 percent of our market, reaching new high levels each year since 1979. They are increasing another eight percent this year, replacing still more workers and causing the failure of more businesses.

Faced with this problem, domestic manufacturers have two options: become as efficient as possible domestically and explore the possibility of foreign sourcing. Our members have responded to the technical challenge. They are as efficient as any apparel industry in the world -- for example it takes only two-thirds the time to make a dozen pair of jeans in the United States as it does in the Far East. Further, we are making significant strides in computer communication with our suppliers and customers, reducing the time it takes to get goods on the shelf and cutting down on costly inventory.

As regards the second option, many of our members have turned to Section 807 as a means of reducing costs while maintaining domestic employment. The existence of Section 807 has enabled many apparel makers to reduce their average costs while maintaining significant production facilities in the United States. It also has enabled them to retain many jobs in cutting and distribution for the products sewn in Central America or the Caribbean. Without Section 807, many of these manufacturers would resort to regular imports from other low-wage countries.

2500 Wilson Boulevard/ Suite 301/ Arlington, Virginia 22201 • 703/524-1864 • FAX 703/522-6741

BAMA DIVISION
240 Madison Avenue
New York, NY 10016
212/686-3440

NOSA DIVISION
240 Madison Avenue
New York, NY 10016
212/686-3440

SAMA DIVISION
P.O. Box 583931
Dallas, TX 75258
214/631-0622

WESTERN DIVISION
P.O. Box 2291
Los Angles, CA 90051
213/634-0929

We also believe that the jobs created and the economic development provided in Latin America by the Section 807 program are good in the long run for the United States. Economic progress for and good trading relations with our closest neighbors can only be in our national interest.

Section 807 seems to be working well for the countries of Latin America. Apparel imports from the region grew 22.5 percent in 1986 and are runing 25.9 percent ahead of last year for the first eight months of 1987. They have increased from 8.6 percent of total imports in 1985 to 10.2 percent this year.

Our Association's formal policy on Section 807 is that it should be retained. Further, our policy calls for increased imports from the Caribbean in direct ratios to decreases from major suppliers. We maintain, however, that Section 807 imports should be treated the same as regular imports for quota purposes under the Multifiber Arrangement.

We appreciate the opportunity to comment on H.R. 3211. We hope the Subcommittee on Trade will not give it a favorable report.

Sincerely yours,

G. Stewart Boswell
President

STATEMENT OF

THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

This statement is submitted by the American Textile Manufacturers Institute, Inc. (ATMI) on behalf of its member firms operating in the textile mill products industry (SIC 22). ATMI member firms account for more than eighty five percent of the domestic output of textile mill products.

ATMI wishes to register its opposition to H.R. 3211. This Bill would amend the Tariff Schedule of the United States by repealing TSUSA item 807.00.

TSUSA item 807.00 provides for duty free re-entry of U.S.-made components, thereby assuring that all U.S. products have equitable access to the our own market. It is also a stimulus to exports and thus provides employment for U.S. workers. If 807.00 were repealed, many of these garments would be manufactured wholly overseas and U.S. jobs would be lost. The importance of 807.00 to export trade can be seen by the fact that off-shore assembly accounts for about three-fourths of total U.S. apparel exports.

ATMI has had the opportunity on several occasions in the past year to comment, sometimes critically, on the impact of 807 trade on the domestic textile industry. We have criticized the U.S. Customs Service's decision allowing foreign-made fabric to be cut in the U.S. and thereby qualify for 807 benefits. Our industry feels that this is contrary to the intent of 807 to promote the use of U.S. semimanufactures. Also, the fact that 807 imports for some product groups is consistently higher than recorded U.S. exports begs the issue of the existence of fraud. While we support the use of item 807.00, we also believe that imports of all apparel products, however entered, should be subject to restraint when these imports disrupt domestic markets.

ATMI is concerned about the administration of this program, but TSUS item 807.00 should not be repealed. We agree with its intent to promote U.S. exports and save American jobs.

Therefore, ATMI stands in opposition to H.R. 3211.

Badger Meter,Inc.

4545 W. Brown Deer Road, P.O. Box 23099
Milwaukee, WI 53223-0099 (414) 355-0400

James L. Forbes
President and
Chief Executive Officer

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C. 20515

November 30, 1987

Dear Mr. Leonard:

It is our understanding that there has been a recent proposal by Representative John La Face of New York to repeal tariff item 807.00. Our firm strongly opposes any such action and fears such a move could place our Company at a competitive disadvantage with both loss of revenue and jobs.

Badger Meter is a leading marketer and manufacturer of products using flow measurement technology. Our firm has operated under item 807 since the early 1970's. The intent was to hold rapidly rising costs at the competitive level of both foreign and domestic manufacturers. In the late 1970's, the Company undertook a move to increase its domestic production capacity. To take advantage of the item 807 benefits, a new injection molding facility was constructed in Rio Rico, Arizona. This facility combined with a twin plant in Nogales Sonora has enabled our Company to keep its costs at about the same level as our major competitors. The Company has been able to retain its market share at about the same level over the last 20 years.

The Company currently employes approximately 750 workers in the U.S. The greatest numbers are concentrated in Wisconsin (home office), Oklahoma and Arizona.

The product cost is composed of approximately 50% purchased material and 50% conversion cost. Almost all purchased components are of U.S. origin. Major components are brass castings, raw plastics, and many specialty parts. Suppliers are concentrated in Wisconsin and Oklahoma but components come from almost every part of the U.S.

The benefits provided to 807 workers are those mandated by Mexican law. Some additional fringe benefits such as a subsidized cafeteria, Christmas party, and other incidental benefits that are provided at a nominal cost to the Company.

It is very difficult to estimate the impact the repeal of tariff item 807.00 might have on our Company. Our principal competition has greater production integration, primarily foundries, which are too expensive for a smaller firm to operate. This situation puts our firm at a cost disadvantage. The utilization of tariff item 807 has enabled our firm to remain cost effective.

In excess of 50% of our business is into an inelastic market. There is excess production capacity and price is the major factor in selecting the vendor. Repeal of item 807 would result in increased product cost with little hope of recovery through selling price increases. It is most probable that staff reductions of U.S. workers would result.

Our firm believes that tariff item 807 is a significant benefit to the U.S. economy. We oppose repeal of this tariff item.

Sincerely,

BADGER METER, INC.

James L. Forbes
President and
Chief Executive Officer

BECKMAN INDUSTRIAL CORPORATION
ELECTRONIC TECHNOLOGIES DIVISION

UNITED STATES INTERNATIONAL TRADE COMMISSION
ON THE USE AND ECONOMIC IMPACT
OF TSUS ITEMS 806.30 AND 807.00

Mr. Chairman and Members of the Commission:

Thank you for the opportunity to communicate our experience with TSUS Items 806.30 and 807.00

Beckman Industrial Corporation is a high-tech company, with sales offices in Japan, Europe, Singapore, Canada, and the United States. Our production facilities are located in Fullerton, California; Toronto, Canada; Glenrothes, Scotland; and Mexicali, Mexico. The total work force numbers 1,886 employees, of which 548 are U.S. citizens and the balance are citizens of countries outside the U.S.

From the outset, our production facilities have been aligned to take the advantages offered by international markets in product demand, raw materials, and cost factors. In general, our plants in the U.S. provide the sophisticated and capital intensive end of components and/or finished products; our foreign plants, the labor intensive processes. But other considerations, such as distance, market responsiveness, suppliers, quality, and financial incentives, play an important part in decisions on production locations. Beckman Industrial Corporation has remained a competitive, world-class American corporation, thanks to this strategy. On the sales side, our foreign sales offices account for 44 percent of the company's revenue. Our international sales forces have a long, established presence in the competitive technology markets of Japan and Europe. Our wide range of products are used as components in applications, ranging from instrumentation to consumer electronic and industrial products.

For ten years, we have used TSUS Item 807.00. Our U.S.-Mexico border plant is located 200 miles from Fullerton. We do assembly work on standard products for trimming potentiometers and precision component product lines. The plant was opened about five years ago, after the unfortunate deterioration of the business environment in El Salvador. Parts in the assembly line are 95 percent U.S. origin, with most manufacturing and engineering support coming from the Fullerton plant. Only labor classified at the lower end of technical complexity is performed by foreign workers. The relatively high productivity and labor cost enable us to maintain reasonable margins and market share on standard products. TSUS Item 807.00

has complemented the factor advantage by protecting American-made parts in our own market and simultaneously enhancing the competitiveness of our products in the world markets.

Repeal of Item 807.00 would have a deleterious impact on the company's future, because it would prevent us from using a natural market advantage that the Mexican-U.S.A. border offers. As technology improvements in materials and design occur, the company keeps investing in new machinery and equipment to improve and maximize the American content of all our product mix. At the same time, market forces--supply and demand--expanding worldwide intensify the need for additional cost advantage, making cost of labor, more than ever before, increasingly important. Losing Item 807.00 would make us vulnerable at a time we need more protection to make return on investments come to fruition.

Beckman Industrial Corporation, as an American multinational company, profits from world trade by obtaining almost half of the revenue from foreign buyers and utilizing the world factor advantages to remain a low-cost, quality supplier. To be viable in the free world marketplace, we recognize the need to invest with a world vision so as to garner its benefits. The major recipients of these benefits are the American shareholders, workers, and general public.

TO: House Committee on Ways and Means

FROM: Citizens Committee for Border Labor (El Paso, Texas)

Statement in Support of H.R. 3211

The Citizens Committee for Border Labor is a voluntary group of El Pasoans who support the labor, civil and human rights of working people in this city as well as in our sister city, Juarez, (Chihuahua) Mexico. While we are concerned about the effects of TSUS Item 807.00-assisted offshore production on workers throughout the U.S. and the world, we are limiting our comments in support of HR 3211 to describing the negative effects of the Border Industrialization Program to our metropolitan community.

With 300,000 workers currently employed in 1,000 maquiladoras, Mexico has become the largest assembler of U.S. components processed abroad and re-exported to the U.S. Mexico far outdistances Singapore, Korea and Taiwan in the use of TSUS Item 807.00, and Mexico's Colegio de la Frontera estimates that by the year 2000, the maquiladoras will employ between one and three million employees, with value added of about $10 billion annually. About two-thirds of maquiladoras are totally or majority U.S. owned; and those dominated by U.S. capital account for 80 percent of employment and 85 percent of domestic value added for reexport.

This is the bright side of the picture that the maquiladora boosters and the border media's business pages push. But there is an ugly side to the industry, a side which disturbs us and which is magnified here in El Paso; and in Juarez, where more people work in the maquiladoras than in any other Mexican city.

The biggest stain on the maquiladora industry is created by why the typical U.S. company chooses to go "offshore" to Mexico. While investors prefer to use the euphemism "to stay competitive", the basis of that competitiveness is of course, cheap, cheap labor.

According to John H. Christman, Director of International Business Development for American Industrial Parks, Inc. in Chihuahua and former head of the American Chamber of Commerce in Mexico City, in 1967 the savings to a U.S. company moving part of its operations to a maquiladora was $3,000 per employee per year. By 1985, the savings per employee had climbed to $15,000 a year. But these figures only cover the cost of hourly wages. To calculate the total savings, we can take a hypothetical company paying 100 U.S. assembly workers an hourly wage of $8.00 apiece. If that company had moved its assembly operations to Mexico in 1985, then figured out its labor costs; after factoring in fringe benefits, overhead, and even the extra cost of freight and duty payments, the company would still save a total of $41,700 per year per worker, or more than $4 million per year. Even compared with the benefits of the Third World in general, Mexico is particularly attractive to U.S. businesses because it is one of the few offshore locations where assembly wages as a percentage of U.S. wages have actually declined during the past decade.

In addition to low wages, Mexico offers other inducements, like tax breaks, special treatment to American owners and outright subsidies. State taxes vary and tend to be very low, since each state on the border competes with the others. Sonora, for example, offers exemption of 100 percent for the first 10 yars and 50 percent for the next 10. And any attempts by the Mexican government to boost corporate taxes have been met with organized resistance of the U.S maquiladoras through pressure groups such

as the American Chamber of Commerce in Mexico. In 1972, for instance, when the Mexican Treasury announced a four percent tax hike on the Mexican compononts in BIP exports, the U.S. companies challenged the ruling in Mexican Supreme Court and won.

Low wages and juicy inducements in countries like Mexico lead analysts such as Richard Bolin, whose Flagstaff Institute conducted a study often used by El Paso and Juarez maquiladora promotors, to estimate that two million jobs have been created in underdeveloped countries in the past 20 years. And in the next 20, he calculates that there may be 20 million jobs there.

So far, we have used the industry's vocabulary about "saving" money and "creating" jobs. But from the point of view of workers, especially U.S. ones, the correct words are "losing" and "destroying." An article in Foreign Policy in 1973 quoted AFL-CIO figures estimating that between 1966 and 1971 alone, 900,000 jobs and job opportunities were lost when U.S. companies ran away to the Third World. Wayne MCClintock, editor of the business newsletter Mexico Report, thinks the U.S. will lose 4.5 million jobs by the 2000. Some analysts give even higher estimates ranging from seven to nine million jobs "disappeared" from the United Sates. MCClintock estimates that 45 to 65 percent of those lost jobs will go to Mexico.

Who are the Americans who have lost their jobs during the past 20 years? The hardest hit have been -- and will continue to be -- low-skilled, traditionally low-paid workers in apparel and electronics industries, who are mostly women and minorities ... exactly the same type of people as the maquiladora workers in the Third World. And perhaps the hardest hit of these mostly women and minorities in the United States are the workers of the border region. El Paso, according to Texas Employment Commission labor analyst Hector Venegas, is "turning into a Third World country" because of increasingly unemployment.

It is easy to see what Venegas means by looking at the numbers he works with. At the beginning of 1987, the unemployment rate in El Paso was 11.7 percent (the figure is presently slightly under 10 percent because of increased Christmas-season hiring). Clearly, some of this city's double-digit joblessness is due to the many companies that were once attracted to El Paso because of its longstanding reputation as an open-shop, weak-union, minimum-wage town. Any business moving to El Paso for these "advantages" will, not surprisingly, tend to hop a few blocks, to the other side of the Rio Grande and set up a maquiladora for the same reasons it originally came south in the first place. From November, 1985 to November 1986, El Paso lost 3,500 manufacturing jobs as companies like Farah and GTE laid off their workforces and went to Juarez. Indeed, since 1981, we have lost a total of 8,500 manufcturing jobs. Of these, 7,400 were in the garment industry. Currently only 12,800 remain employed in clothing manufacturing. It is esimated that by the year 2000, there be no garment workers left in El Paso.

The predictable suffering of all these discarded workers has been met with all sorts of reactions: such as Venegas' comment that laid off El Pasoans "stay here like undigested meat in your stomach. I wish there was a way to get them to go somewhere else..."

Others, especially the maquiladora boosters, have cheerfully told us that layoffs are a fair tradeoff for the 5,000 El Pasoans working on this side of the river in the supply sector of the maquiladora industry; fair tradeoff for the 1,000 American professionals who live in El Paso and cross to Juarez everyday to work in the plants as managers and executives. Maquiladora promotors, including El Paso's Mayor Jonathan Rogers, point to studies showing that in all the BIP has

generated more than 7,000 jobs in El Paso during the past seven years. And a recent study by University of Texas El Paso economist Richard Sprinkle titled "Project Link" claimed that one in five new jobs in El Paso are directly or indirectly linked to the maquiladoras.

The problem with such "hooray for the twin plants" studies is that they are produced by researchers either directly employed by the industrial parks and the maquiladora promotor trade groups -- or by people receiving funds from such sources. Prof. Sprinkle's study, for example, was sponsored and funded by the El Paso Foreign Trade Association and the El Paso Industrial Development Corporation -- both staunch supporters and lobbiers for more twin plants.

The Sprinkle report's findings were touted all over town and out of town as well. Less publicized were the remarks of Texas Employment Commission (El Paso) director Venegas, who says the increase in jobs in El Paso during the past five years is overwhelmingly located int the minimum wage retail and service sector, and that this increase is mostly due to the 75,000 rise in El Paso's population during that time. What about maquiladoras as generators of El Paso jobs? Venegas says he can find only 550 new trucking jobs conected with the tiwn plants.

Another issue often glossed over by twin promotors is the possibility that twin-plant industrialization along the Mexican border contributes to the illegal migration of Mexican workers into the United States -- the longterm situtation that the "Simpson-Rodino" Immigration Reform and Control Act attempts to address. Proponents of more twin plants,including the Immigration and Naturalization Services' (INS) Southern Regional Commissioner Stephen Martin, are fond of sayng that the new law won't work -- that the best way to stop most illegal immigration to this country is to keep the Mexicans on the south side of the Rio Grande, working in maquiladoras. Proponents frequently cite a study by Seligson and Williams, published in 1981, that concludes that twin plants do not encourage emigration from Mexico.

However, "Women's Work and Unemployment in Northern Mexico," a more recent study by University of New Mexico sociologist Susan Tiano, concludes that the placement of twin plants in Northern Mexico does not solve unemployment there. She concludes that the maquiladora industry's very existence and continued presence in Mexico is not predicated not on the idea of increasing the ratio of employed to unemployed. Rather, maquiladoras depend on a perennially high unemployment rate. While Juarez authorities say their unemployment rate is very low -- two percent -- they also admit that the "underemployment" (part time, street vendors, etc.) rate is about 40 percent of the working age population. No matter how many hours a week they labor, it would not be unreasonable to include that maquiladora workers, with their $2.50 per day wage, among the underemployed, since they hardly make a full time living wage as any reasonable person on either side of the U.S. - Mexico border understands that concept. It is well known among anyone who talks to maquiladora workers that the most energetic among them decide rather quickly to emigrate to the U.S., legally or illegally. And in Juarez, the turnover of assembly workers averages about eight percent a month -- i.e., every year, statistically speaking, the entire blue-collar workforce of a twin plant changes completely. Managers have recognized turnover as a problem, but say that the constant influx of fresh workers from Mexico's interior (competing with each other to keep the wage low) solves the turnover problem.

If one recognizes that people are pouring into Juarez and other "maquilized" border cities from Mexico's interior, it then follows that many of them will see a much higher standard of

living available just a few blocks north in the United States. Dr. Gay Young, a sociologist who until recently taught at the University of Texas El Paso, thinks the Seligson and Williams study was done too early to predict the skyrocketing takeoff of the maquiladora program after the early 1980's. She points out that maquiladoras always bring hyperindustrialization to the border, accompanied by the creation of all kinds of jobs besides assembly work -- everything from chewing gum vending to barbering. The people who come north to fill these jobs have been uprooted from their traditional homes in Mexico. And once you get uprooting in the Third World, you will logically get immigration into the First, which in the case of Mexico and the U.S., is only a few steps and an unenforceable immigration reform law away.

There is another issue which goes beyond narrow, jobs- gained-jobs-lost-how-many-illegal-aliens? arguments that tend to define the maquiladora debate. A deeper question, one which every American should ponder, is the morality and the effect of the violations of human and labor rights that this country is exporting along with the maquiladora industry.

One violation of rights and dignity is the indisputable matter of the low wage for maquiladora workers -- currently, about $2.50 per day. People must make do with about $0.30 an hour in a region where almost all services and commodities cost <u>at least</u> half what they do in the U.S. We refuse to accept the rationale that the maquiladora wage is appropriate because it is the Mexican minimum wage, and when in Rome, do as the Romans do. Mexico's wage is Mexico's business. We wish to talk about our business: we would like to take any U.S. Congressperson to the pauperized slums of maquiladora workers, let them see how they spend winters in shacks heated by burning tires and wood; show them articles in American publications such as "Twin Plant News" advising managers to get their home offices to send down castoff clothing, blankets and an extra kilo of beans a week because, as the trade publication itself admits, the maquiladora workers are freezing and starving (see attached).

What about labor rights in Mexico? Most maquiladoras are either non-union, or what we would call "company union", except that the companies have happily brought in one or the other of the large unions tied to the ruling Institutional Revolutionary Party (PRI). There have been numerous incidents up and down the border durng the past several years of workers' being repressed by the Mexican government, acting in concert with the companies, as the workers have tried to organize for either their own independent unions, for decent working conditions, or simply to keep their factories from fleeing in the night and taking all the equipment back to the U.S.

In the absence of unions that truly represent maquiladora workers, legislation that the maquiladora industry pressured into existence during the recessionary 1970's also calls into question the industry's regard for workers' rights. For instance, "inefficient" workers can now be dismissed without severance pay; the number of peronnel, the work day, the work week and salaries can be increased or decreased as the company's situation requires; a 30-day probation period after which the worker got full medical and other benefits has been extended to 90 days. We have heard of instances in which workers are kept on constant 90-day contracts, "laid off" on the 90th day, then rehired ... all simply to wipe out accrued seniority so the company will not have to pay severance pay or medical benefits. There is also evidence, reported recently by the Juarez weekly Ahora, that children under the minimum mandated age of 16 are working in the maquiladoras.

There has also been scattered anecdotal evidence that companies are using solvents, other chemicals and production techniques in

the Mexican maquiladoras that OSHA would not allow had they stayed in this country. And there is preliminary public health data from Juarez which suggests that among maquiladora workers,incidences of late term miscarriages, stillbirths and neonatal mortality have risen during the past few years. A study done by the Naco, Arizona Border Ecology Project in 1987 suggests that workers atthe Nogales Samsonite maquiladora are suffering from several diseases related to tho unsafo exposure to dust, fiber dust, adhesives and solvents (see attached).

These facts are our business, because as John Christman said in the documentary film on offshore production sharing, "Global Assembly Line," people in the Third World will learn about the United States through the maquiladora system. As it stands now, businesspeople from our country, supported by our government and TSUS Item 807.00, are teaching some very disturbing lessons about the United States -- lessons at total variance with this country's ideals. These lessons are being learned not only by the people of Third World countries; they are poisoning the hearts and minds of the Americans who have lost their jobs and dignity to the maquiladora program.

We believe that our country must find ways to increase productivity and competitiveness that respect the living standards and rights of people on either side of our borders. We will not be able to begin this task until we repeal legislation such as TSUS Item 807.00. Thus, as citizens in daily contact with the misery that maquiladoras cause, we urge the passage of H.R. 3211.

CITIZENS COMMITTEE FOR BORDER LABOR
1012 Oregon Street
El Paso, Texas 79902
(915) 533-9412

December, 1987

"Twin Plant News" July, 1986

PLEASE SLOW DOWN THE INFLATION

As of June 1, 1986 minimum wage in most of Mexico were adjusted to 2,065 Pesos per day. Based on a 48 hour work week the cost per hour now comes to $.5743 U.S.

To calculate the above you multiply 2,065 × 7 days or 14,455 pesos per week. You pay 2,065 pesos for Sunday also even-though your employee doesn't work. By law the meter keeps running however. The law reads everyone will work 48 hours a week so divide the 14,455 by 48 and you get 301.1458 pesos per hour and as of June 1, 1986 the controlled rate of exchange is 524.40 pesos to the dollar. Divide 301.1458 pesos by 524.40 and you get $.5743 U.S. per hour. If your firm doesn't work 48 hours divide the 14,455 pesos per week by whatever your hours are. Some firms charge the Sunday pay or 2,065 pesos to fringe benefit account rather than leaving it to labor. It is the best two out of three falls as what you want to do. If you throw it against fringe benefits however it only increases that percentage and you probably already have a fight with divisional headquarters as to your fringe rate percentage against U.S. plants. It isn't apples to apples is it?

Inflation has eaten up any increase that you are giving your employees by law so look around as to what else you may do. Pardon the note, but we are hearing of more and more firms paying over minimum wages. You might think about that one. Maybe that will stop the turnover. If you don't do anything ~~else give them a lunch~~ everyday so they at least have something to keep them going.

When things were good, many years ago, there were problems of operators fainting on the line which was due to hunger. Today, with inflation, the problem is worse. You might walk around your production area at lunch time to see if people are still sitting at their work places. If you question that person you may find they have no money for lunches. It may be poor budgeting on their part but at the same time it just might be not enough money to go around in their family with inflation eating it up. We corporations need to help during these rough times.

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From "Twin Plant News," January, 1986

the daily hours or weekly schedule as long as the employees go along with it. Most employees would rather work five nine hour days and have a two day week-end. It also reduces their expenses by one day's bus fare and that extra day's lunch money.

The January, 1986 wage increase is very reasonable. Price increases of gasoline, tortillas, milk, bread, water, electricity and most other basic commodities have already wiped out that increase. Industries in Mexico will continue to be pressured to assist their employees outside of the payroll in such as food assistance, transportation and the like. 1986 doesn't seem to look much better in terms of their buying power. It wouldn't be a bad idea to start a clothing exchange in your plant. Many kids outgrow their clothes and if someone else could benefit all they need is a place to do it and alittle assistance for management. This will also allow your wife to clean out your closet of those plaid golf pants you have from ten years ago that you'll never get into again. There is always someone who can use them.

One good thing for 1986 is the withholding taxes for your employees was reduced. We aren't talking big money but every peso helps. Below is an analysis of the tax bite for various levels of monthly salary comparing 1985 to 1986 for Juarez. The table is in pesos only.

Please note that 6% is the high point in less taxes for the 1985 to 1986 comparison. After that point it becomes less again. When we are experiencing 60% + inflation that 6% gets eaten up quickly.

Remember that to arrive at the net take home pay you have to deduct the 3.75% social security withholding taxes as well as the federal taxes outline above.

Monthly	1985 Taxes		1986 Taxes		Difference	
	$	%	$	%	$	%
50,000	629	.0126	15	.0003	614	.0123
75,000	2,855	.0381	1,618	.0216	1,237	.0165
100,000	6,657	.0666	4,118	.0412	2,539	.0254
150,000	17,246	.1150	11,152	.0743	6,094	.0407
200,000	30,432	.1522	20,850	.1043	9,582	.0479
250,000	45,695	.1828	32,826	.1313	12,869	.0994
300,000	62,809	.2094	45,826	.1528	16,983	.0566
400,000	100,429	.2511	76,169	.1904	24,260	.0607
450,000	120,911	.2687	94,869	.2108	26,042	.0579
500,000	142,501	.2850	113,569	.2271	28,932	.0579
600,000	186,891	.3115	154,542	.2576	32,349	.0539
700,000	233,065	.3330	197,147	.2816	35,918	.0514
800,000	281,065	.3513	243,347	.3042	37,718	.0471

Professional Daily Minimum Wages for 1986

		PESO PER DAY		
General and Farm Worker		$1340.	$1520.	$1650.
Specialed	**Job**			**Categories**
1.	Journeyman brick mason	1,957	2,219	2,409
2.	File clerk	1,866	2,116	2,297
3.	Salesclerk pharmacies and boutiques	1,702	1,931	2,096
4.	Bulldozer operator	2,057	2,333	2,532
5.	Cashier	1,739	1,972	2,141
6.	Journeyman compositor	1,848	2,096	2,275
7.	Bartender	1,775	2,013	2,186
8.	Capentar	1,820	2,065	2,242
9.	Journeyman carpenter furniture maker	1,920	2,178	2,365
10.	Planning operator	1,857	2,106	2,286
11.	Chef	1,984	2,250	2,443
12.	Journeyman mattress maker or repairman	1,793	2,034	2,208
13.	Journeyman title placer	1,911	2,168	2,353
14.	Accounting clerk	1,884	2,137	2,320
15.	Constuction plasterer	1,811	2,055	2,230
16.	Construction iron worker	1,884	2,137	2,320
17.	Shoe leather cutter	1,757	1,993	2,163
18.	Seamstress (factory)	1,730	2,962	2,130

POST OFFICE BOX 5 NACO, ARIZONA 85620
(602) 432-7456 or 432-2688

JULY 1, 1987

To: Concerned Health Professionals

From: Dick Kamp, Director Border Ecology Project

Subject: Nogales Sonora Samsonite Maquiladora

Mr. Roger Keehn, Samsonite Corporation Vice President for Human Resources, has informed me that the company is preparing an inspection of the workplace utilizing some of you within the health field that I have contacted regarding potential health problems in the Samsonite workplace.

Whether or not American and Mexican health professionals will work together in this instance was not clear, however the company's intent is laudable.

I am attaching a copy of a preliminary investigation of worker complaints that the Border Ecology Project has written. It was sent to Mr. Keehn, and hopefully it will be of some use. As I mentioned to Mr. Keehn, it would be very helpful to interview some of the workers who are allegedly affected by their work.

Mr. Keehn has asked that I not be involved in a workplace inspection directly. Therefore,I would like to contact those of you involved in working with the company to get your impressions of the potential problem--as well as any suggestions of developing a long term group that can work with binational occupational health problems in the maquilas. I also hope that those of you on the attached list who are receiving this memorandum will take the time to share your impressions with each other....

Sincerely:

Dick Kamp, BEP

Attached: List of health professionals contacted regarding Samsonite binational workplace inspection.

Memo: Preliminary Report: Samsonite Interviews 12 June 87

From: Richard Kamp and Michael Gregory

Date: 23 June 87

AFFECTED POPULATION

Majority of plant workers are women aged 18-60, including women in various stages of pregnancy. Fifteen workers were interviewed, including two men. Interviewed workers had been employed at the plant for periods of a few weeks to several years.

SUBSTANCES OF INTEREST

1. Three to four fabrics consisting of one or more synthetics.
2. Unidentified adhesives.
3. Unidentified solvents (referred to by the workers as "acetone" and "thinner").
4. Unidentified metals and brazing materials.

PROCESSES

1. Cutting fabrics with scissors.
2. Gluing fabrics together.
3. Heat bonding of fabrics.
4. Brazing of metals by arc welding.

POTENTIAL ROUTES OF EXPOSURE

1. Dermal contact with fibers, adhesives, solvents, etc.
2. Inhalation of fibers, dusts, adhesives, solvents and the combustion products of brazing or heat bonding.
3. Secondary dermal contact from materials in clothing.
4. Ingestion of fibers, dust or vapors in food or water.

SYMPTOMS

1. Sore throats, tonsilitis, chest pains.

2. Inflammation and irritation, especially of face, hands, arms, legs and lower torso. Symptoms may first appear after a few days on the job, may disappear overnight or, in more severe cases, after worker has been away from the workplace for a few days or more. Symptoms are said to return when worker returns to the job. Workers say that when they complain that the rashes, dermatitis, etc. have become too severe, they are transferred to different duties. Workers who had been in the plant longest showed the most extensive rashes, inflamed areas and sores.

3. Workers complained of various mental or behavioral problems (dizziness, fainting, confusion, loss of memory) which they attributed to inhalation of adhesives and solvents. Workers assigned to rooms where solvents are used alleged that memory loss of up to an hour or more may occur following working hours, and may be so severe that they have to be helped to find the proper bus home.

4. Women complained of menstrual disorders, including irregular and prolonged periods.

POTENTIAL CONTRIBUTING FACTORS

1. Inadequate ventilation.
2. Inadequate sanitary facilities.
3. Lack of protective clothing and equipment.
4. Contaminated food or drinking water.
5. Other outside sources of contamination.

December 4, 1987

STATEMENT OF CHARLES A. VANIK
ON BEHALF OF THE COALITION FOR NORTH AMERICAN
TRADE AND INVESTMENT

ON

H.R. 3211, TO REPEAL ITEM 807 OF THE TARIFF SCHEDULES

My name is Charles A. Vanik, counsel to the Washington, D.C. law firm of Squire, Sanders and Dempsey. I am pleased to submit these written comments on H.R. 3211 as Washington representative of the Coalition for North American Trade and Investment. I am joined in these comments by Paul Suplizio, the Coalition's director.

The aim of the Coalition is to support Mexico's maquiladora program, Items 806.30 and 807.00 of the Tariff Schedules, and the expansion of mutually beneficial trade and investment among the nations of the North American continent. In the long run, the Coalition envisions the emergence of a free trade area encompassing the United States, Mexico, Canada, the Caribbean, and possibly other countries. A list of the members of the Coalition is appended to our statement.

Item 807 permits duty-free entry of that portion of the value of imports represented by American-made components assembled abroad. As such, it is a corner-stone of national trade policy relative to global manufacture for a global marketplace. H.R. 3211 would repeal this tariff item and the incentive it embodies to combine American-made components with foreign labor to reduce production costs.

We oppose H.R. 3211 because it embodies a policy that is fatally flawed, the notion that to prevent static job losses in the short run we should surrender the prospect of achieving advances in competitiveness and dynamic job gains and higher living standards in the long run. One of the great strategic opportunities facing this country is the prospect of combining U.S. capital and technology with the labor and raw materials of the developing nations for our mutual prosperity. If we fail to seize this opportunity, other nations will, to our detriment in both domestic and world markets.

As we intend to show, rather than repealing Item 807.00, the program should be liberalized and expanded.

The Role of Item 807.00 is To Maximize
the Use of U.S.Components in Global Production

Strong competition in the marketplace and significant cost differentials between the U.S. and abroad are principal factors driving the sourcing decisions of U.S. firms. These competitive forces and cost differentials exist independently of the benefits conferred by TSUS Item 807.00. While Schedule 8 tariff items are not the driving force behind the decision to outsource, they do have a key role to play. That role is to maximize the use of U.S. components in global production.

How do these tariff items stimulate the use of U.S. components? A firm seeking to reduce costs through assembly operations abroad normally has a choice of using U.S. or foreign-made components. Consider the case where a U.S. and foreign component are of equal cost, after relevant transportation costs are factored in, and production is mainly for the U.S. market. Which component will be used? The U.S. component has a cost advantage because it will enter duty-free under Item 807.00. Not until the foreign component falls low enough in cost to offset the advantage of this tariff item will it be preferred.

TSUS Item 807.00 remains significant, even when viewed in light of the declining share of the value of a good that production represents. A common example is that 10 percent of the value of an IBM personal computer is generated by manufacture; the bulk of the value stems from design and engineering, sales and service. In such case, even though the proportion of total cost represented by Item 807.00 is relatively small, the cost advantage conferred remains a major factor in the decision to use U.S. components.

As long as some production is destined for these shores, the use of U.S. components will be encouraged, even when much of the output is earmarked for other markets. In an era of global manufacture for a global marketplace, TSUS Item 807.00 represents sound policy because of the cost advantage given to U.S. components. If this advantage is removed, foreign components may be used, resulting in a wholly foreign-manufactured product. This applies whether the producer is a U.S. or foreign firm. Assembly abroad using U.S. components would be displaced by foreign imports. This is the reality behind the frequently-heard comment of U.S. managers that, if Item 807.00 were repealed, the result would be location of the entire manufacturing operation abroad.

This result has also been confirmed by economic research. In an important study published in the American Economic Review, J. Michael Finger developed an economic model for testing whether increased domestic

production or foreign imports would result if Item 807 were repealed. The results were overwhelmingly on the side of increased imports.[1]

Item 807 May Contribute to Job Losses in Some Sectors in the Short Run, but Stimulates Rising Productivity and Living Standards in the Long Run

From the experience of my past, I have become aware of the problems of American labor which must be concerned about every job lost. However, we must recognize that economic forces in the world make it difficult, if not impossible, to ensure the security of every job in the country. Our goal should be directed toward preserving as many jobs as we can in those skills that will sustain a high and rising standard of living. In today's swirl, we may lose all if we try to save all.

Because Item 807 permits duty-free entry of that portion of the value of imports represented by American-made components, it is viewed as a stimulant to outsourcing of assembly operations with resultant loss of employment in the industry concerned. The issue is thus part of the larger question of global sourcing and investment by U.S. firms, and fears expressed about 807 at bottom relate to the wisdom of encouraging this trend.

When assembly or processing operations are transferred offshore, the common tendency is to count the lost jobs associated with these operations as the employment impact. Layoffs from plant closures and other instances of job cutbacks are cited as incontrovertible evidence of employment loss due to outsourcing. Little is ever mentioned of the job losses that would occur if firms did not outsource to remain competitive.

If a competitive assessment of the affected industry were made (both the International Trade Commission and the Commerce Department have made many such assessments), the impact of the failure to outsource to remain competitive could be weighed in terms of market share, profitability, technological leadership, capital formation, and employment. The job consequences of failure to remain competitive should be compared with the job impacts of outsourcing in order to properly evaluate the employment issue.

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[1] J. Michael Finger, "Trade and Domestic Effects of the Offshore Assembly Provision in the U.S. Tariff", American Economic Review, September 1976. Finger demonstrates that products assembled using U.S. components would be displaced by imports using foreign-made components if TSUS Item 807 were repealed. When Finger performed his research, he was only able to make estimates of the impact on U.S. trade and output, not employment. Howver, three Commerce Department economists have recently provided an input-output model that permits estimation of job losses from foreign imports, so the significant employment losses associated with wholly foreign-made substitutes for U.S.-assembled products, in the absence of TSUS Item 807, can now be demonstrated. See Kan Young, Ann Lawson, and Jennifer Duncan, Trade Ripples Across U.S. Industries (Washington, Department of Commerce) 1986.

A static model, which deals only with first-round effects on jobs, fails to consider the potential for subsequent expansion of employment as a firm becomes more competitive. Testimony presented by some firms in the ITC investigation of this issue supports the conclusion that there may be no job loss when sales and output respond favorably to lowered production costs. A dynamic model, which takes account of the long-run gains to the economy from lower production costs and increased productivity, would reveal not only job expansion in growing sectors, but transfer of workers from declining to expanding industries. When combined with public policies to assist displaced workers, this is the stuff from which higher living standards are made.

It seems clear that the engine for global sourcing is the existence of strong competitive pressures in both U.S. and third-country markets, and large wage differentials between developed and developing countries. According to the available research, much of which is summarized by Joseph Grunwald and Kenneth Flamm in The Global Factory (Washington, The Brookings Institution, 1985) and the Hudson Institute report, Workforce 2000 (Indianapolis, 1987) it is the more labor-intensive operations that are being transferred abroad. Relatively low-skilled jobs, of which there are a considerable number in the U.S. manufacturing sector, are most at risk. Appended to our statement is a table from the Grunwald and Flamm study that identifies industrial sectors with the highest percentages of relatively unskilled jobs. Approximately one-third of the workforce in autos and electronics, and two-thirds in apparel, fall into this category. These industries are most subject to growing worldwide competitive pressures, and are most involved in outsourcing.

As low-skilled jobs are reduced in the manufacturing workforce, the ratio of high-skill to low-skill jobs increases. This process has been going on for some time under the impact of automation, which is the solution (more capital investment at home) supported by organized labor. The fact is that both automation and foreign sourcing may displace workers in the short run, resulting in job shifts to other occupations or industries. The end result is a higher-skilled, more productive workforce earning higher real wages.

There is also evidence that, as production operations are more prone to cyclical fluctuations, the burden of the business cycle is borne more by low-skill laborers abroad. In the case of the 1985 downturn in the computer industry, declining production in U.S. facilities in the Far East resulted in large-scale unemployment ("U.S. Multinational Companies: Operations in 1985", Survey of Current Business, June 1987, p.32).

Labor market policies can minimize the burden of adjustment for workers displaced by outsourcing of assembly and processing operations. Such policies include worker retraining, relocation within the company, pension portability, and continuing education. Additional alternatives are being explored through collective bargaining, such as job banks, job guarantee contracts, and new compensation methods.

Labor organizations contend that when low-skill workers are displaced from manufacturing, they end up in unskilled service jobs, frequently at less pay. Labor Department studies show that this is not accurate. Of 3.4 million workers who were re-employed after being

displaced during 1981-1985, 2.7 million were working at full-time wage and salary jobs, of which the percentage in service occupations ranged from 5.2 to 18.4 percent. Fifty-six percent of those re-employed earned as much or more in their new jobs as in their lost jobs.[2] While productivity in services is low at present, rapid gains are forecast in the years ahead. In communications, transportation, construction, research and development, banking, leisure, and other fields, service needs will largely dictate the products of the manufacturing sector. Rather than denigrating the service sector, we should view it as a new frontier for productivity gains and as an expanding source of upscale jobs.[3]

Importance of TSUS Item 807 to U.S. Competitiveness
Is Supported by Experience and Research

The debate over TSUS Item 807 is not a debate over tariffs but over the larger issue of whether government policy should encourage U.S. firms to locate part of the manufacturing process abroad, organizing production in a way that combines our relatively plentiful capital with the abundant labor of developing countries. Some argue that the best way to maintain the comparative advantage of the U.S. is to keep our capital at home and use it to improve production here. When part of the production process is carried on abroad, is it an unwise export of capital and jobs or an investment to sustain profits and capital formation in this country?

In a recent study for the National Bureau of Economic Research, Robert E. Lipsey and Irving B. Kravis evaluated the comparative advantage of the U.S. as a production site versus the comparative advantage of U.S. multinational firms who produce at home and abroad. They found that the U.S. as a production site had lost competitiveness during the past two decades, while U.S. multinationals had maintained their competitiveness when all their operations, including majority-owned foreign affiliates, are considered. The significance of this finding is that while the U.S. has lost ground to rapidly industrializing nations in its share of world exports, U.S. firms who have internationalized production were able to maintain their export share.

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[2] U.S. Department of Labor, Bureau of Labor Statistics, "The Pulse of Economic Change: Displaced Workers 1981-1985," Monthly Labor Review, June 1987; and "Deindustrialization and the Shift to Services", Monthly Labor Review, June 1986.

[3] Hudson Institute, Workforce 2000, (Indianapolis, Hudson Institute) 1987, pp.37-43. Grunwald and Flamm, op. cit., p. 225; U.S. Department of Labor, Bureau of Labor Statistics, "Employment Lessons from the Electronic Industry", Monthly Labor Review, February 1986, and Occupational Projections and Training Data, Bulletin 2251, April 1986. Hudson Institute, Workforce 2000 (Indianapolis, Hudson Institute) 1987; Daniel J.B. Mitchell, Labor Issues of American International Trade and Investment (Baltimore, The Johns Hopkins University Press) 1976; Worker Adjustment to Liberalized Trade: Costs and Assistance Policies, Working Paper No. 426, The World Bank, October 1980. U.S. Department of Labor, Bureau of Labor Statistics, "The Pulse of Economic Change: Displaced Workers 1981-1985", Monthly Labor Review, June 1987 and "Deindustrialization and the Shift to Services", Monthly Labor Review, June 1986.

The same firms do less well when their foreign operations are excluded.[4]

The explanation of this important finding is that the U.S. is a high-cost location for many production operations; performing these operations abroad lowers costs and helps sustain the competitiveness of our firms. The work of J.M. Finger, who developed a model that looked explicitly at outsourcing operations attributable to Item 807, reinforces this conclusion.[5] Many other studies make the same point.[6]

In addition, both the cost-reducing and market expanding aspects of direct foreign investment enables firms to gain economies of scale as they travel down the learning curve, achieving further efficiencies as experience is gained in production. In some cases, as in the semiconductor industry until 1975 and the computer industry until recently, U.S. technological leadership helped sustain our multinational firms' market share.[7] But as recent events have demonstrated, worldwide diffusion of technology and lower unit labor costs have also enabled our competitors to benefit from the learning curve and buy market share through price-cutting.[8] This has placed a premium on cost reduction to stay competitive, further stimulating outsourcing and use of 807.

The experience of the automobile, textile, and electronics industries in regard to 807 has been amply documented by the Office of Technology Assessment, Commerce Department, International Trade Commission, and

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[4] Robert E. Lipsey and Irving B. Kravis, The Competitivenss and Comparative Advantage of U.S. Multinationals, 1957-1987, National Bureau of Economic Research Working Paper No. 2051, October 1986. See also, "U.S. Multinational Companies: Operations in 1985", Survey of Current Business, June 1987; "Capital Expenditures by Majority-Owned Foreign Affiliates of U.S. Companies, 1987", Survey of Current Business, March 1986; Theodore H. Moran (Ed.), Investing in Development: New Roles for Private Capital? Overseas Development Council, Transaction Books) 1986; and World Bank, World Development Report 1987.

[5] Finger, op. cit.

[6] See, for example, the study prepared for the Joint Economic Committee by William Finan, Perry Quick, and Karen Sandberg, The U.S. Trade Position in High Technology: 1980-1986, and other studies in these footnotes.

[7] International Competitiveness In Electronics, (Office of Technology Assessment, 1985); Grunwald and Flamm, op. cit., Chapter 3.

[8] Ibid. With further reference to the television and TV picture tube industry, see House Ways and Means Committee, Written Comments on United States-Canada Free Trade Negotiations, April 1986, pp. 118-139 and 347-351.

other sources.[9] We will not comment further on these studies, except to call the Committee's attention to the voluminous data which relates offshore operations and use of 807 to competitive needs, declining profits and market share, and other market factors.

In its 1983 study, International Competitiveness in Electronics, the Office of Technology Assessment found the U.S. computer industry to be in excellent health. It commented:

> "American leadership in design, production, and sales -- as well as utilization -- is reflected both in trade data, where the computer industry continues to be a prodigious net exporter, and in the prominence of U.S.-owned subsidiaries in other parts of the world.... Imports have been at low levels, even for personal computers and peripherals -- although this could certainly change.... There is no reason why the United States cannot continue to hold an overall lead in both technology and sales.[10]

Just three years after the completion of this study, the International Trade Administration published A Competitive Assessment of the U.S. Microcomputer Industry, and the situation had altered radically. ITA reported concerning microcomputer (personal and business) systems that: "A number of trends are underway within this industry, most of which are common throughout the entire computer industry. These include:

-- signs that an erosion of U.S. domestic and world market shares may have begun in certain industry segments

-- rapid development of foreign competition

-- growing involvement of foreign governments in the industry

-- international sourcing of components, materials and subassemblies

-- increasing offshore production and/or use of automation."[11]

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[9] Grunwald and Flamm, op. cit., chapter 3; International Competitiveness in Electronics op. cit.; International Trade Commission, Probable Economic Effect of Providing Duty-Free Treatment of U.S. Imports of Certain High-Technology Products, Publication 1705, June 1985; General Accounting Office, Observations on the U.S.-Japan Semiconductor Arrangement (NSIAD-87-134BR), April 1987. U.S. Congress, Office of Technology Assessment, U.S. Industrial Competitiveness A Comparison of Steel, Electronics and Automobiles Washington, 1981); USITC, The Internationalization of the Automobile Industry and its Effects on the U.S. Automobile Industry, Publication 1712, June 1985; U.S. Congress, Office of Technology Assessment, The U.S. Textile and Apparel Industry A Revolution in Progress (Washington, 1987).

[10] International Competitiveness in Electronics, pp. 201, 214, 457.

[11] U.S. Department of Commerce, International Trade Administration, A Competitive Assessment of the U.S. Microcomputer Industry: Business/Professional Systems (Washington, 1986), p. vii.

ITA described the erosion of the U.S. competitive position and concurrent transfer of production operations abroad by firms "primarily searching for lower manufacturing and material costs to improve their competitive position in both domestic and international markets.... While most U.S. firms go offshore to manufacture high volume, low cost products in areas where profit margins are at the razors edge, they prefer to keep their R&D and design functions at home.... Most companies are moving to the Far East, particularly to Hong Kong, Singapore, Malaysia, Taiwan and Korea. However, facilities have been located in other low cost areas, such as Ireland, Mexico and the Caribbean Basin."[12]

ITA pointed out that some firms were choosing to remain competitive by automating their factory operations through robotics, seeking to counter the lower wage rates available overseas by increasing productivity. However, ITA noted that "automation requires significant capital expenditures and many of the techniques are new and untried."[13] This conforms to the view of most researchers and experience that the high investment requirements of automation make it a less likely choice when technology is changing rapidly. According to the "product life-cycle theory", rapidly changing technology will frequently dictate a preference for offshore assembly, while mature technologies are susceptible to both automation and outsourcing.[14]

Automation and offshore assembly are both effective responses to the problem of remaining competitive, but automation is not in all cases a feasible response. Adequate profitability to support the large capital requirements of research and development and automation is essential, and offshore operations may be necessary to sustain that profitability.

Another ITA study, A Competitive Assessment of the U.S. Disk Storage Industry rounds out this picture by describing the rapid erosion of the competitiveness of U.S. firms producing computer peripherals. "By bringing their production technologies to bear on these high volume, standardized, price sensitive products, Japanese firms have become the leading foreign competitors. Taiwan and Hong Kong have also begun to represent important foreign sources of these devices. In an effort to remain price-competitive, a number of U.S. disk storage suppliers...have moved a portion of their production to offshore sites. Singapore has become a major foreign site for U.S. disk storage producers.... A key factor in the rise of foreign competitors and the movement to offshore production has been the overseas availability of lower cost parts and subassemblies for disk drives.... Since these parts can represent 60-65 percent of the manufacturing cost of a disk drive, suppliers who have easy access to the lowest cost sources for these parts can gain an important cost advantage over their competitors."[15]

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[12] Ibid., pp. 28-29.

[13] Ibid., p. 30; Grunwald and Flamm, pp. 48-54.

[14] Grunwald and Flamm, pp. 3 and 54-57.

[15] U.S. Department of Commerce, International Trade Administration, A Competitive Assessment of the U.S. Disk Storage Industry (Washington, 1985) pp. v-vi.

That the problem of sustaining competitiveness pervades most U.S. high technology trade can be seen from a 1985 Commerce Department staff report, U.S. High Technology Trade and Competitiveness.[16] Therefore, we can continue to expect more movement offshore by high technology industries, such as aircraft components, engines and turbines, scientific instruments, communications equipment, office machines, and electronic components. This movement will be driven by a desire to take advantage of lower unit costs for labor-intensive production operations, and availability of low-cost materials. The falling dollar will serve to arrest this trend to some degree, but it should be remembered that some developing country exchange rates are depreciating even faster than the dollar, and Asian NIC exchange rates have appreciated only moderately.

Summary and Conclusion

TSUS Item 807.00, by which goods assembled abroad of U.S. components pay duty only on the foreign value added, has been attacked for contributing to plant closings, reduction of employment opportunities, and encouraging the export of capital needed to modernize domestic industry.

In the Coalition's view, these arguments are without merit. We accept that in some cases plant closings have occurred, and employment opportunities in particular firms and industries were reduced, when assembly operations were transferred offshore. In our view, foreign sourcing is a rational and often necessary response to market conditions and competitive pressures driving down prices, profits, and market share. We believe the elimination of Item 807.00 would reduce demand for U.S. components and lock this nation into high production costs limiting our competitiveness in global markets.

Many high-wage jobs in America are integrally dependent upon low-wage processing operations abroad, and job losses would be even greater if firms did not outsource to remain competitive. We cannot realistically preserve every job or every plant; the effort to save all may cause us to lose all.

Production operations abroad are most often driven by the need to reduce costs and sustain profitability, as has been the case in apparel, autos, and electronics. Almost two-thirds of the workers in textiles and apparel, and one-third in autos and electronics, are relatively unskilled. It is mainly the unskilled jobs that are displaced by foreign assembly. As a nation, we should assist in worker retraining and transfer to higher-skill work, while investing for the future in an educated labor force. This is the best way to assure that technically advanced, higher-paying jobs remain at home when low-skill, manual operations are more economically performed abroad.

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16 U.S. Department of Commerce, International Trade Administration, U.S. High Technology Trade and Competitiveness (Washington, 1985).

We should not only be asking, "What is the impact of Item 807 on U.S. jobs?", but "What kind of jobs do we want to keep in this country to sustain a rising standard of living?" The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated work force, and invest worldwide to stay competitive.

I know there are many members of Congress that have grave concerns about how offshore production impacts their community. No one likes to see a plant shut down and a community stricken. As a former chairman of the Trade Subcommittee of the Ways and Means Committee, I held several field hearings both north and south of the border on this issue. I became convinced that these programs are as good for the U.S. as they are for our trading partners.

More recently, I've been working with many American corporations, quite a few of whom are from the rust-bowl states of the Midwest. I am astonished how many of these industries are kept alive because they can carry on some of their production across the border in Mexico. One conglomerate with over 150 plants in America advised me that without 20 percent of production carried on in maquiladoras, and shipped to the U.S. under Item 807, the 80 percent in America could not be sustained.

The true source of job security is a profit-making firm. A firm that's making profits can accumulate capital and make the investments needed to sustain the more productive, better paying, high-skill jobs that yield a rising standard of living.

Such investments must yield an adequate return through volume production that can only be sustained by being cost and quality competitive in the marketplace. As two decades of experience in the semiconductor industry has demonstrated, transferring labor-intensive assembly operations abroad while retaining capital-intensive design, engineering, and testing operations in the U.S. contributed to cost reductions, market expansion, and a strong competitive position that only in recent years was eroded by subsidized foreign competitors who targeted our markets.

Our nation has only limited capital resources. It can't afford to sink them into facilities that can't compete. We prefer that businesses invest in modern plants at home and gain cost-competitiveness through high productivity. But for some forms of production, even the most modern plants won't be able to match foreign costs.

Americans aren't unfamiliar with this process; we've watched it proceed domestically for a hundred years. When the textile industry migrated south to stay competitive, the regions that gained and lost were entirely within our borders. Today the process is the same, only the location of investment is more often abroad.

A competitive firm is a growing firm that's a better customer for its suppliers. It's able to undertake research and development, bring new products to market, and invest in the latest production technology. These processes can generate new jobs as well as the high value-added products that obtain the best terms of trade internationally.

In order to maintain its position of leadership in the world, the U.S. must reverse its unfavorable balance of trade, which will require exporting more into global markets. This will necessitate achieving a high degree of competitiveness with often-subsidized foreign producers. Reversing course on TSUS Item 807 out of a misplaced fear of economic adjustment, which is natural and inevitable in a dynamic economy, would limit our ability to compete when our principal competitors are reaping the benefits of offshore production in Asia, Mexico, and the Caribbean.

The future of the U.S. economy may well depend not only on maintaining technological leadership and a highly-skilled work force, but on our ability to deploy our considerable capital resources to develop low-cost production opportunities in all parts of the globe. In order to encourage this process, TSUS Item 807 should be gradually liberalized to encompass all manufacturing operations abroad, not just assembly; and its administration should be simplified in line with generally accepted accounting principles, as recommended by firms in the electronic components industry.

To summarize, eliminating TSUS Item 807.00 would:

(1) reduce the incentive to use U.S. components in global production, thus reducing the U.S. content of foreign-assembled items;

(2) adversely affect employment in U.S. component production, especially where high value-added components are involved;

(3) reduce the gain in competitiveness from using low-cost foreign labor for labor-intensive operations;

(4) make it uneconomical for some industries, to produce abroad, therefore ceding the advantage of using low-cost labor to foreign producers, and replacing U.S. production by foreign production.

It is the position of our Coalition that, although there may be some temporary job loss, TSUS Item 807.00 is essential to the survival of American industry and labor in that it makes many jobs in America more permanently secure. In today's climate, many American manufacturing industries will not be able to preserve the high levels of American employment without access to low cost labor available under this program. In the final analysis, American labor and American industry are mutual beneficiaries of the 807 program. We urge rejection of H.R. 3211.

Table 7-1. *Importance of Unskilled Labor in Labor-intensive U.S. Industries, 1978*[a]

Industry	Unskilled operators as percent of total employees in industry listed		Unskilled operators as percent of total unskilled employment in all industries	
	All unskilled operators[b]	Assemblers only	All unskilled operators[b]	Assemblers only
Furniture and fixtures	37	9	2.5	3.9
Pottery	46	2	0.3	0.1
Cutlery and other hardware	22	9	0.5	1.4
Engines and turbines	19	10	0.3	1.1
Farm machinery	20	12	0.4	1.5
Office and accounting machines	18	12	0.2	0.7
Electronic computing equipment	13	9	0.5	2.1
Other nonelectrical machinery	18	8	2.3	7.0
Household appliances	35	22	0.9	3.5
Radios, television sets, and communication equipment	24	12	1.9	6.3
Other electrical equipment	32	16	5.4	17.3
Motor vehicles and equipment	29	18	3.8	15.3
Mobile dwellings	28	9	0.4	0.9
Miscellaneous transportation	29	15	0.2	0.6
Scientific instruments	24	14	0.6	2.4
Optical and health-service supplies	25	8	0.7	1.5
Watches and clocks	36	20	0.1	0.5
Meat processing	43	1	2.0	0.2
Apparel and accessories[c]	64	0	9.8	0.0
Miscellaneous fabricated textile products	51	2	1.3	0.3
Rubber products	40	2	1.6	0.5
Leather tanning and finishing	53	1	0.2	[d]
Nonrubber footwear	62	2	1.4	0.3
Other leather	51	7	0.4	0.4
All labor-intensive industries	n.a.	n.a.	37.7	68.1
All manufacturing	25	5	69.3	96.7
All industries	8	1	100.0	100.0

Source: Calculated from data in U.S. Department of Labor, Bureau of Labor Statistics, *The National Industry-Occupation Employment Matrix, 1970, 1978, and Projected 1990*, Bulletin 2086 (Government Printing Office, 1981).

n.a. Not available.

a. "Labor-intensive industry" is defined as a sector in which the proportion of unskilled labor is 160 percent or more of the fraction of unskilled employed in all industries.

b. Excluding transportation employment.

c. Sewing is not considered to be assembly.

d. Negligible.

Coalition for North American Trade and Investment

(703) 823-8281
(800) 247-6949

4012 MOSS PLACE
ALEXANDRIA, VA 22304

TELEX: 6502797900 VIA WUI
FACSIMILE: (703) 370-3269

LIST OF MEMBERS

Rockwell International Corporation
Haggar Apparel Company
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A.O. Smith Water Products Company

Statement of the Committee for Production Sharing
Submitted in response to H.R. 3211
at the request of the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
December 4, 1987

The Committee for Production Sharing, an association of 130 companies and associations supporting production sharing, is writing in response to the request by the House Ways and Means Subcommittee on Trade for comments on H.R. 3211, a bill to repeal tariff item 807.00 of the Tariff Schedules of the United States.

The Committee strongly opposes the enactment of H.R. 3211. In our opinion, such a proposal makes no economic sense and would cause great damage to a large number of U.S. companies in industries that run a range from agriculture and textiles and apparel to electronics.

Background.

The terms competitiveness and production sharing are much in vogue today but, in many ways, are not clearly understood. The President's Commission on Industrial Competitiveness, in its 1985 report, defined the competitivenss of the firm as its ability to "produce products or services of a superior quality or lower cost than its domestic and international competitors." The report goes on to say that "competitiveness is then synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners."

Faced with the formidable competition that has surfaced in the past twenty years, U.S. corporations have had to look for new ways of structuring their operations. The "name of the game" in this new global economy is providing the greatest product quality at the minimum possible end item cost while being the best at designing, developing, producing, selling and servicing the needs of both today's and tomorrow's customers.

To achieve this goal, managers have had to assess both internal and external factors. Internally, management must review the organization structure: has it become too large or top-heavy? Does the organization inhibit the entrepreneurial process, stifling creativity and eroding the firm's ability to respond to the needs of the customer and the market? The condition of plant and equipment must be examined: has it become worn or obsolete? Has investment in R&D and technology kept pace with market demands? The company's debt structure must be reviewed to ensure that the firm has not extended itself beyond its financial limits. Product quality and the cost of achieving quality must be evaluated. Customer service, including delivery of product, after-sales service and support, and inventory control, must meet customer demands. Employee training and development of human resources must be at the level dictated by the needs of the business.

But even if management believes that the business is operating efficiently compared to other U.S. firms, increasingly it must also consider foreign firms, which operate under completely different sets of costs, particularly for labor. Until very recently, exchange rates and currency devaluations often reduced the operating costs of foreign firms compared to U.S. firms. Foreign practices such as government production subsidies, low-cost capital, and favorable export financing gave foreign firms a competitive edge in U.S. markets. At the same time, foreign investment controls, performance requirements or local content rules often made it difficult for U.S. firms to enter foreign markets cannot be ignored. The firm must find ways torespond or ultimately, it will not survive. Many American firms have initiated programs for improving efficiencies on the operating side and for "downsizing" on the structural side. One need only to pick up the business section of the news every morning to learn what individual companies are doing to streamline their operations, reduce their costs, and be more responsive to the needs of the customer and the market.

Largely as a reaction to challenges posed by foreign competition, and encouraged by the existence of huge wage differentials between the developed and developing countries in combination with falling costs of both transportation and communications, U.S. companies have looked to production sharing as a means for cutting product costs. This strategy was buttressed by the existence, in the Tariff Schedules of the United States, of Tariff Items 806.30 and 807.00, which allowed for the duty-free return of the value of U.S. content in articles having been advanced in value abroad. This concept has been a part of U.S. tariff law since the 1930's, and indeed, many other industrialized countries incorporate similar provisions into their own tariff statutes.

Production sharing can be viewed as an extension of the concept of the international division of labor, where producers in one country share aspects of the production process with foreign affiliates or contractors in another country in order to achieve greater cost effectiveness. When these arrangements are made between two developed countries, such as the United States and Japan, the purpose is often to combine technologies and/or production and research facilities or to meet the requirements of certain markets. In production sharing relationships betwen developed and developing countries, such as the United States and Mexico, the advanced industrial economy performs the more sophisticated and capital-intensive functions while shifting some of the more labor-intensive tasks in the assembly functions to a foreign counterpart. In the latter arrangement, which currently comprises the buld of production sharing trade, companies are making the best use of the U.S. workforce, clearly among the best educated and most highly skilled in the world.

Origin of TSUS item 807.00.

Tariff item 807.00 allows "articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating and painting" to be assessed "a duty upon the full value of the imported article, less the cost or value of such products of the United States." Simply put, the value of the U.S. components assembled abroad is exempted from customs duty upon re-entering the customs territory of the United States.

Item 807.00 applies only to U.S.-fabricated components that are exported ready for assembly and that do not lose their physical identity in the assembly process. Assembly operations of U.S. components abroad may include sewing, gluing, force-fitting, laminating, crimping, screwing, nailing, riveting, soldering, welding, or the use of fasteners. They may also include operations incidental to the assembly process, such as cleaning, removing rust or grease, applying preservative paint or coating, trimming or filing, placing holes in a components for ease of assembly, and cutting to length of wire, thread or similar products exported in continuous length. Final calibration, testing, marking, sorting, and folding of assembled articles are also incidental to the assembly process. Specific examples of operations allowed under item 807.00 include:

--Assembly of cut parts of wearing apparel by sewing, hemming or stitching.

--Installation of U.S. products in articles of foreign manufacture, such as U.S. engines and equipment in foreign-made commercial aircraft or automobiles.

--Assembly of baseball and softball covers and their cores by sewing or stitching.

--Assembly of U.S. electrical products by soldering and other operations.

Tariff item 807.00 has existed in its present form since August 31, 1963, the effective date of the current TSUS. It was formulated in the Tariff Classification Study to place on a sound basis an anomalous but well-established practice arising under paragraph 1615(a) of the Tariff Act of 1930 as a result of a 1954 decision of the United States Customs Court. Under paragraph 1615(a), American goods returned to the United States that had not be "advanced in value or improved in condition by any process of manufacture or any other means" could receive duty-free treatment.

The Customs Service, in attempting to determine which components should receive duty-free treatment, used a criterion of "constructuve segregation," under which U.S. components had to meet requirements of identification and removal without injury. The U.S. Customs Court in 1954 decided that labor expended abroad to assemble U.S. components with other components did not advance the value of the U.S. components. It also found that U.S. components contained in imported articles would qualify for duty-free entry, if such components could be identified as the identical product exported from the United States, without having been changed in any manner other than by assembly into a new or different article.

Two-way benefits.

Growth in the use of tariff item 807.00 has been dramatic, increasing almost 30-fold from $0.9 billion in 1966 to $36 billion in 1986. The U.S. content portion of these products grew from $0.1 billion in 1966 to $5.9 billion in 1988.

The maquiladora industry in Mexico is a good example of the benefits that item 807.00 brings to both the U.S. and a host country. Item 807.00 imports from Mexico have grown from $7 million in 1966 to $6.5 billion in 1986. U.S. content in these imports totaled $3.4 billion, or about 52 percent of total value. By the end of 1986, there were 987 maquiladora plants in operation in Mexico, employing approximately 268,000 workers. These plants account for almost 85 percent of the domestic value added for re-export.

Item 807.00 operations abroad benefit Mexico and other host countries tremendously. Foreign exchange earnings are used to pay debt service, develop infrastructure, and purchase U.S. goods. These operations assist developing countries to grow economically, which is in the U.S. interest. When economic growth goes hand-in-hand with political growth, these countries become stronger and that is also in the U.S. interest. Although only partially the result of production sharing, our two-way trade with the developing countries of Latin America where production sharing operations exist, particularly Mexico, has increased at a much faster rate than with developed countries. These secondary effects of the existence of production sharing operations in developing countries should not go without notice.

But benefits to the U.S. are real and recognizable as well. According to annual studies on the impact of maquiladoras on the El Paso/Juarez economy, compiled by Mr. William Mitchell of Grupo Bermudez, an estimated 14,159 U.S. suppliers from 49 states were involved in 1986 in providing materials, equipment, and services to maquiladora plants in Juarez and supporting facilities in El Paso. An estimated 218,675 U.S. workers were involved in providing these materials and services to the El Paso/Juarez production sharing operations alone. About 6,332 American workers were employed in El Paso to support maquiladora operations in Juarez, and an additional 1,095 management and technical personnel live in El Paso and work in Juarez facilities. Including all sources of material, equipment, and services, both in El Paso and elsewhere in the U.S., an estimated total of about 259,000 American workers were involved in 1986 in supplying or servicing production sharing in El Paso/Juarez.

The annual payroll for employees in El Paso was in excess of $111 million and $828 million flowed through El Paso banks to support operations on both sides of the border. In 1985 alone, an estimated $2 billion in primary material and equipment, provided by U.S. industry and U.S. workers, was shipped through El Paso to support Juarez operations. In 1986, almost $11 million was spent in El Paso on lease/mortgage payments involved with production sharing facilities, $3.8 million was spent in paying taxes, and over $232 million was spent on transportation for production sharing goods. In addition, approximately $25 million of the income of Mexican workers in Juarez was spent in El Paso for goods and services. Benefits to other U.S. border communities are similar in nature.

Reasons for using TSUS item 807.00.

The decision to engage in production sharing is one, of course, which must be made by individual companies based on the competitive challenges which face them. When the proper planning is exercised, as in the case of any prudent business decision, production sharing can be a business-saving option.

In a report prepared about two years ago by our Committee, we asked both members and nonmembers alike about their experiences in production sharing. Responses covering 94 separate production sharing operations in 17 countries were received from 66 different firms. Employment in these operations was an estimated 70,753 workers. Of the 94 separate production sharing operations covered by the responses, 56 were located in Mexico.

Over 85 percent of the respondents indicated that labor availability and low labor rates were a major or strong cause for establishing production sharing operations. About 65 percent of the respondents indicated that pressure from imports were either a major or strong cause or played a role in establishing production sharing operations. On the benefits side, about 92 percent of the respondents indicated that production sharing significantly reduced, or helped reduce, end item costs. Sixty-eight percent indicated that production sharing helped them to maintain market share, while 26 percent of the respondents indicated that production sharing helped them to gain market share from their competition.

Obviously, the ability of American firms to utilize U.S. content in their production sharing operations is highly important to the success of these operations. U.S. content is technically sophisticated, meets the quality specifications of the user, and can be provided in the "just in time" delivery mode required by the firm. From a cost viewpoint, the total savings from being able to utilize U.S. content and existing U.S. sources and systems

of supply close to the production sharing site go beyond just the duty-free recognition of this content. Any diminishing of tariff item 807.00 might have dramatic consequences to U.S. firms engaged in production sharing:

o If item 807.00 give recognition to the product of U.S. manufacture, then its elimination would treat U.S. content in the same way as content from any other country is now treated - as dutiable. We would be saying, in essence, that there is nothing unique about the product of our own manufacture that warrants duty-free treatment.

o The U.S. worker would not be well served. U.S. jobs in U.S. plants that are involved in providing U.S content will be endangered as firms who have production sharing operations assess the impact of the elimination of duty advantage. Using the accepted ratio of exports-to-jobs, about 160,000 U.S. workers were directly involved in providing the $6.4 billion of U.S. content in item 807.00 imports in 1986. About 320,000 additional U.S. workers were involved in secondary or support operations. These jobs would be in jeopardy.

o The U.S. consumer would not be well served. If production sharing improves the competitiveness of U.S. firms through the use of item 807.00, then the elimination of that tariff item would decrease competitiveness by increasing product costs and, ultimately, product prices.

o The U.S. shareholder and investment community would not be well served. The ultimate goal in today's global marketplace is to survive profitably. As product costs and product prices increase due to the elimination of duty-free treatment of U.S. content, pressures on the bottom line will increase, causing erosion of returns on sales and returns to the investor community.

o Trade and investment would not be well served. Production sharing in developin countries has resulted in increased investment in, and trade with, these countries. To the extent that production sharing operations are curtailed, trade and investment will decrease, impacting the ability of host countries to service their debt, develop infrastructure, and purchase U.S. goods.

Beyond 807.00.

It is impossible to forecast with any precision the impact of any elimination or alteration of tariff item 807.00. Just as individual firms made the investment decision to engage in production sharing, so too the individual firm must decide how any elimination of tariff item 807.00 will impact its cost structure. However, for anyone to assume that the impact of any elimination would be to have all production sharing operations fold up and move back to the United States would be wrong.

Rather than focusing on the elimination of tariff item 807.00, U.S. producers should look to broaden the horizon of possibilities. For example, to the extent that preferential duty-free access for U.S. content provides significant assist to U.S. firms engaged in production sharing, serious consideration should be given to permitting additional types of provessing of U.S. conponents and materials into finished products under the tariff statutes. When originally enacted, the concept of assembly of components in item 807.00 was utilized to assure that U.S. components used in the process could be kept track of and their value identified upon reimportation. U.S. tariff law, however, has gone beyond this rather rigid concept. Under the Caribbean Basin Economic Recovery Act (CBERA), U.S. materials can be incorporated into articles produced in beneficiary countries and the value of such materials can be used to meet the local content requirement up to 15 percent of the dutiable value of the article. Thus, maintaining records and keeping track of the U.S. value, for the purposes of establishing eligibility for preferential duty-free access, has been taken beyond the U.S. component assembly concept.

In addition, H.R. 3101, legislation introduced this year to extend and expand the CBERA, contains language which would expand the use of U.S. content along the lines just recommended by providing unlimited duty-free treatment for articles manufactured, assembled or processed from 100 percent U.S. materials, components and other products. Items manufactured, assembled or processed from 100 percent U.S. material would also be eligible to enter quota-free. This is a positive step and one that will encourage the greater use of U.S.-manufactured components.

Rather than repeal item 807.00, U.S. businesses should concentrate on developing more creative responses to global competition. For example, U.S. industry should consider using production sharing operations in developing

countries as an export base to third countries. Most developing countries have at least selective preferred access into industrialized country markets. In the process of becoming more competitive, U.S. firms must become more efficient by lowering costs, improving quality, and becoming more flexible. Production sharing and tariff item 807.00 are viable options in the struggle to survive profitably.

Conclusion.

Tariff item 807.00 is important to U.S. business competitiveness, profitability, and productivity. It helps preserve jobs in the United States and at the same time provides "trade-not-aid" economic assistance to developing countries, helping them train workers, service debt and purchase U.S. goods. We strongly urge the Committee to oppose H.R. 3211.

Components
for Electronics

CTS Corporation
Corporate Offices

905 North West Boulevard
Elkhart, Indiana 46514

Telephone (219) 293-7511
TWX 810-294-2167 Cable CTS

CTS

anniversary

December 1, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longsworth House
Washington, D.C. 20515

Dear Mr. Leonard:

As President and Chief Executive Officer of CTS Corporation, I strongly oppose the passage of H.R. 3211, a part of the Omnibus Trade Bill, which proposes to repeal Item 807.00 from the United States Tarriff schedules. Since CTS has depended heavily on Item 807.00 in structuring its operations and setting its prices, 807.00's repeal would have a devastating impact on CTS and other similarly situated domestic corporations.

Specifically, CTS ships U.S. manufactured electronic products to Mexico, Singapore and Hong Kong for assembly. Item 807.00 then allows our foreign counterparts to ship assembled product back to our U.S. operations with duty imposed only on the value added abroad.

As a manufacturer of electronic components, we compete head to head with Japanese and Far East concerns. Repeal of 807.00 would either force CTS out of several product lines entirely or force CTS to move the entire production thereof out of the United States.

In our view, repeal of 807.00 means fewer U.S. jobs, not more. CTS has three U.S. plants from which it may be required to lay off employees if H.R. 3211 is passed.

First, our Brownsville, Texas division has shared production with a Matamoros, Mexico plant since 1968. The operations in Matamoros have allowed us to retain our market share by keeping down our costs. Presently, we are the only North American source for a particular product purchased by a major automotive company. All other sources are in the Far East.

If we were forced to close our operations in Brownsville, fifty U.S. workers would join the ranks of the unemployed. Presently, the unemployment rate in the Rio Grande area is among the highest nationwide - 16%. Additionally, the U.S. suppliers to the Mexico facility employ approximately 100 United States citizens. These suppliers would lose valuable business and would be hurt as well if Item 807.00 is repealed.

The second division of CTS which depends heavily on Item 807.00 is located in Eden Prairie, Minnesota. Eden Prairie has shared production with our Hong Kong facility since 1966. One of the products manufactured at Eden Prairie and assembled in Hong Kong is a core memory system, of which CTS is one of only three domestic manufacturers.

Core memory system assembly includes stringing very fine wires through the middle of a small component, all of which must be done under high-powered microscopes. Significantly, CTS has attempted to find a company in the United States to perform this work and was unable to do so. Further, CTS is unable to establish such an assembly facility in the United States itself as it would be cost prohibitive.

Approximately ninety-nine Minnesota employees would be affected if Item 807.00 was repealed.

Finally, a third operation, located in Sandwich, Illinois, would be damaged by the repeal of Item 807.00 . It began sharing production with Singapore and Hong Kong in 1981. Recently Sandwich initiated a major production sharing program with our Singapore plant involving CTS Surface Mount Products.

If Item 807.00 is repealed, we anticipate shifting the entire Surface Mount production to Singapore and securing off-shore suppliers for the product line. In that event, our U.S. suppliers would lose approximately $1.5 million dollars worth of business annually. This would be a severe blow to our current U.S. suppliers as they are struggling to compete with foreign suppliers.

In summary, loss of Item 807.00 would result in a loss of revenue for many United States companies, including U.S. suppliers and would eliminate many United States jobs.

I believe that CTS is fairly representative of the U.S. multi-national corporations which rely on Item 807.00 to remain competitive. Item 807.00 is sound, responsible trade policy; H.R. 3211 is not.

I request that the House Ways and Means Committee take action now to defeat H.R. 3211.

Very truly yours,

CTS CORPORATION

George F. Sommer
President and Chief
Executive Officer

BEFORE THE UNITED STATES CONGRESS
COMMITTEE ON WAYS AND MEANS
TRADE SUBCOMMITTEE
TESTIMONY ON BEHALF OF CONACEX NORESTE
IN OPPOSITION TO H.R. 3211

Submitted by
Leslie Alan Glick, Esq.
Counsel

This testimony is submitted on behalf of Conacex Noreste in opposition to H.R. 3211, a bill which would abolish Section 807 of the Tariff Schedules of the United States. Conacex Noreste is a trade association in the northern Mexico state of Nuevo Leon whose membership includes exporters, importers and representatives of other companies engaged in international trade and commerce. Conacex Noreste's membership includes companies operating maquiladora plants in the state of Nuevo Leon and Conacex Noreste has organized a special committee concerned with maquiladora operations. The state of Nuevo Leon has a population of over three million persons and a total available work force of 851,000 persons. Of these, 76,000 or 9% are unemployed and an estimated 280,000 or 32% are underemployed. This unemployment situation worsened several years ago with the closing of a major steel plant in Monterrey.

Conacex Noreste is filing this testimony due to its strong concern for the survival and expansion of trade and commerce between northeastern Mexico and the United States. This trade benefits both Mexico and the United States and is severely threatened by protectionist legislation such as H.R. 3211. Recently, the establishment of maquiladoras (in bond-assembly plants) has greatly increased in Monterrey, providing much needed employment and industrial stimulation to the economy. Monterrey now has over 30 maquiladora plants that have helped provide jobs to many of the unemployed and underemployed workers.

Many of the maquiladoras are owned by U.S. companies and import substantial quantities of U.S. materials. In addition, many import U.S. machinery to manufacture these products. The U.S. economy benefits since these U.S. companies that are assembling U.S.-made components in the maquiladoras in Nuevo Leon might otherwise be losing sales to competitors in the Far East that have lower labor costs. Many of these U.S. companies might go out of business entirely or cut back production and employment were it not for the opportunity for production sharing through the use of Mexican maquiladoras. This is in fact documented by the circumstances of one particular maquiladora in Monterrey, ACS Internacional, in testimony submitted by this company before the United States International Trade Commission in connection with its Section 332 investigation on the 807 program that is currently being conducted. In this testimony (a copy of which is attached) ACS Internacional and its affiliate in Rhode Island, ACS Industries, documents how jobs have actually been saved in the United States by moving certain assembly operations to Monterrey, Mexico. This is because the lower cost of assembling the product in Mexico enabled sales to increase, requiring more production and more production workers in its Rhode Island plant to supply the Mexican assembly operation. This is a perfect example

of why the 807 program, that H.R. 3211, would abolish, benefits both U.S. and Mexican companies and workers by utilizing the comparative advantages of each country to produce better quality products at lower costs. This enables U.S. companies to remain competitive with competition from lower labor cost countries in the Far East and for Mexico to employ more workers in Mexico.

Without the advantages of Section 807 allowing duty-free reimportation of U.S. components, the foundation for the Mexican maquiladora industry would be undermined and Nuevo Leon and other states in Mexico would experience loss of jobs and economic growth. At the same time, U.S. companies would be penalized.

In conclusion, the U.S. and Mexico have made major strides in improving their relations in the last few years. In April 1985, Mexico and the U.S. signed an Understanding on Subsidies whereby Mexico agreed to eliminate export subsidy programs and not to institute new ones. Later Mexico joined the of the General Agreement on Tariffs and Trade (GATT) and agreed to eliminate import licenses and reduce tariffs. Most recently on November 6, 1986, Mexico and the U.S. signed an historic "Framework Agreement" which provides for consultative mechanisms to reduce trade disputes. It is in the context of these positive advances in U.S.-Mexico trade relations that the U.S. Congress should reject the shortsighted and protectionist proposals contained in H.R. 3211 that would set back progress in the improvement of U.S.-Mexico trade relations.

UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

Use of Economic Impact of TSUS Items 806.30 and 807.00	Investigation No. 332-244 Non-Confidential

PRE-HEARING BRIEF OF ACS INDUSTRIES INC. IN SUPPORT OF CONTINUATION AND EXPANSION OF 806.30 AND 807.00 BENEFITS

Leslie Alan Glick
Duncan, Allen and Mitchell
1575 Eye Street, N.W. Suite 300
Washington, D.C. 20005

Counsel to ACS Industries

July 31, 1987

I. Background and Introduction

Following the receipt of a request from the Chairman of the Subcommittee on Trade, Committee on Ways and Means of the U.S. House of Representatives, on March 11, 1987, the U.S. International Trade Commission (U.S.I.T.C.) published a notice that it had instituted an investigation under Section 332 of the Tariff Act of 1930 concerning the use and impact of Section 806.30 and 807.00. Written comments were invited on or before June 10, 1987. On July 15, 1987 a new notice was published extending the comment period and announcing a hearing. Prehearing Briefs were provide for by August 3, 1987.

II. Information on ACS Industries and Reasons For Its Support For The Continuation And Expansion Of The 806.30/807.00 Program

ACS Industries (ACS) is located in Woonsocket, Rhode Island and employs over 600 workers. Its principal business is producing various metal and plastic products such as telephone line and coil cords, pot scrubbers, metal filters for automobile assemblies and polypropylene yarn for fabrics and carpeting.

ACS is a recent entry into the 807.00 program and strongly believes that the program has been instrumental in helping ACS become more competitive in both the US. and world markets. In 1985 and 1986 ACS found its volume had decreased due to significantly lower prices for similar products produced in Taiwan, Korea and other far eastern countries. During the first six months of 1986, ACS lost $250,000 on these product lines. ACS was determined to meet this competition from the Far East and survive, but it could not meet the low labor rates in the Far East, which are as low as $1.00 per hour. In addition, its competitors in Korea and other countries were bringing most of these products in duty-free under the U.S. Generalized System of Preferences (GSP). It was then that ACS decided to make a bold move, to save its company and to save U.S. jobs! This move was to establish an 807.00 operation in Monterrey, Mexico (commonly known in Mexico as a "maquila" or

"maquiladora"). This maquila 807.00 operation has enabled ACS to benefit from the same low labor costs as its Far Eastern competitors, while still maintaining most of its jobs in Rhode Island. If ACS had not opened the maquila/807 operation, it would have continued to lose its market share, and would have laid-off 100-150 workers. With the maquila operation, its Rhode Island workers are fully occupied producing semifactured and manufactured inputs that are shipped to Mexico for assembly. Since demand has increased as ACS prices have become more competitive, its production in Rhode Island may even increase rather than decrease as a result of the 807 maquila operation.

In fact, ACS did not desire to lay off or discharge any Rhode Island workers as a result of the maquila operation. Unemployment in Rhode Island is very low, less than 4%. ACS has had difficulty finding enough workers and the ones available are often unemployable. This is because the 4% of the population that are unemployed workers are often the hard core unemployed who are not actively seeking work or have no skills whatsoever. Therefore, ACS needed additional suitably skilled workers. It could not fully operate its additional shifts in Rhode Island due to the labor shortage. Therefore, when certain assembly operations were moved to Mexico, ACS offered each potentially displaced worker another job. Over 80% of its workers transferred to other jobs. The other 20% quit because they did not want the new assignments or did not desire a change to an evening shift. ACS is still hiring in its Woonsocket plant and this has not been affected by the maquila, except in a positive sense that its competitiveness creates more production. Because of low labor skills, ACS actually has to hire twice as many workers in Rhode Island as it needs, figuring a 50% attrition rate. Thus, the maquila/807.00 operation was the only solution to ACS's labor problems and was, in fact, crucial in the survival of ACS as a competitive industry.

As a result of its 807 operation in Mexico, ACS expects a 50% increase in its sales. Nothing could be a greater testimony to the value of the 807 program to U.S. companies and workers. Not only is there continued work for U.S. workers manufacturing inputs for the 807 assembly operation but there is also increased sales which will create more higher paying jobs in sales, quality control, customer service, advertising, and related areas. ACS hopes also to increase sales to foreign markets from its maquila operation which will have an added beneficial impact on the U.S. economy.

ACS would also like to point out that its 807/maquila operation has a ripple effect in creating jobs and sales for other U.S. companies. The greater ACS sales and production become, the more raw materials it buys from U.S. steel, copper and other industries. ACS purchases substantial quantities of material in the U.S. to supply its 807 operation including cadmium copper wire, polypropylene, and hytrill resin. Were it not for the 807 operation in Mexico, ACS would be purchasing less of these U.S. -made materials.

III. Suggestions for Improvement

ACS not only believes that the 807 program should be continued but also that it should be liberalized to enable more benefits to flow to U.S. companies. Presently, U.S. Customs takes a very narrow and restrictive view on whether many operations are eligible assembly operations. Despite Court of International Trade decisions expanding the scope of 807 eligibility and defining assembly in a more liberal manner, Customs often follows certain interpretations that are unnecessarily narrow and not realistic in view of today's technology. Customs has taken a very narrow interpretation of certain court rulings such as Sigma Instruments Inc. v. United States, which has resulted in their denying 807 status in cases where it should not be denied. Customs is also taking a very narrow interpretation of what operations are "incidential to assembly" and thus permissible under Section 807. We believe a broad mandate

from the ITC and Congress to liberalize Custom's interpretation of "assembly" and "incidental to assembly" would have a beneficial effect on the U.S. Customs Service's overly restrictive interpretations that are inhibiting U.S. companies from taking full advantage of the 806/807 program.

We hope the ITC report will recommend that Customs change its policy and interpretations in this area to foster increased utilization of the 807 program. ACS has other products it would like to manufacture in its maquila. However, current Customs interpretations of an "assembly" operation may restrict these benefits and could result in ACS losing sales and market share to other countries due to lack of competitiveness.

Respectfully submitted,

Leslie Alan Glick
Duncan, Allen and Mitchell
1575 Eye Street, N.W., Suite 300
Washington, D.C. 20005
Telephone: (202) 289-8400

Counsel to ACS Industries

Lamb & Lerch
Counsellors at Law

233 Broadway
New York, N.Y. 10279

Cable: Lamblerch N.Y.
Telephone: (212) 608-2700
Telecopier: (212) 513-7206

December 1, 1987

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives

Re: H.R. 3211

Dear Sir:

Converse Inc., headquartered at One Fordham Road, North Reading, Massachusetts 01864-2680 ("Converse") is submitting these comments in response to the Press Release dated October 22, 1987, issued by the Subcommittee on Trade, Committee on Ways and Means inviting written comments on various tariff and trade bills presently under consideration. Converse wishes to express its opposition to the passage of H.R. 3211, a bill proposed by Rep. LaFalce to repeal item 807.00 of the Tariff Schedules of the United States.

Converse is considered a major United States manufacturer of athletic footwear with two manufacturing facilities located in the United States. These factories are located in Lumberton, North Carolina and in Canovanos, Puerto Rico. Over the past decade, Converse has been reluctantly forced to close six of its manufacturing facilities in the United States due to lower cost foreign imports, predominantly from Korea and Taiwan. We are listing below the date of each closing and peak employment level at each Converse location:

Factory	Closing Date	Peak Employment Level
Andover	4/02/77	700
Bristol	4/30/77	1000
Malden	9/30/77	800
Berlin	2/23/79	1200
North Berwick	9/28/79	400
Presque Isle	8/20/84	1000

Thus, over 5000 American jobs have been lost in the past ten years due to low cost foreign imports from Korea and Taiwan. In the course of the past several years, Converse has relied upon its maquiladora operation in Reynosa to supply uppers to its Lumberton factory. The canvas shoe uppers assembled in Reynosa all use a fabricated U.S. component (canvas shoe components) which qualifies for item 807.00 eligibility. The lower cost resulting from the maquiladora operation has enabled Converse to remain competitive with Korean and Taiwanese manufacturers in manufacturing its popular canvas "All Stars" at its Lumberton facility. During calendar year 1986, Converse saw its employment level increase at its Lumberton facility by over 400 employees (to 1262) while the employment level at the Reynosa facility has increased by 140 employees (to 244). Furthermore, Converse has just contracted to expand its Lumberton facility by 22,500 square feet which should result in an additional 240 jobs.

Of course, one of the major factors involved in selecting Mexico for the assembly of our uppers is the inexpensive labor available. It is these low wage rates which enable Converse to successfully use U.S. produced textile components to enable it to more effectively compete with Korean and Taiwanese competition. If not for the ability to assemble the canvas uppers in Mexico, Converse would have to give serious consideration to sourcing the finished footwear totally overseas and closing its U.S. facilities.

Although item 807.00 eligibility is not the penultimate reason for Converse's utilization of U.S. fabricated components in Mexico, the duty reduction available to Converse through item 807.00 eligibility has certainly enabled Converse to be more competitive with the Korean and Taiwanese fcotwear manufacturers in the U.S. market. Item 807.00 eligibility encourages U.S. companies, such as Converse, which have assembly and/or manufacturing operations set up abroad, to utilize U.S. fabricated components in its assembly operations conducted abroad. Item 807.00 reduces the dutiable value of the imported product. This incentive many times results in the company's selection of U.S.

fabricated components where it would otherwise source said components from third countries or from the country of assembly.

Converse therefore fully supports the item 807.00 program and looks to it for the continued ability to make its U.S. produced footwear more competitive. Converse is hopeful that Congress will see fit to continue to encourage the utilization of U.S. fabricated components by offshore assemblers. The preferential duty treatment that item 807.00 affords to the U.S. fabricated components contained in the imported uppers has made the canvas footwear produced by Converse in the United States using said uppers more competitive with footwear manufactured in Korea and Taiwan.

Based on the foregoing, Converse urges the subcommittee not recommend the passage of H.R. 3211.

Respectfully submitted,

LAMB & LERCH
Attorneys for Converse, Inc.
233 Broadway
New York, New York 10279
Tel.: (212) 608-2700

By: David R. Ostheimer
David R. Ostheimer, Esq.

DRO:do

Comments of the
Electronic Industries Association
Submitted in Response to H.R. 3211
December 4, 1987

The Electronic Industries Association (EIA) represents the entire spectrum of electronic manufacturers in the United States. Its members range from manufacturers of the smallest electronic part to corporations that design and produce the most complex systems used in defense, space and industry. EIA represents approximately 85% of the manufacturing capability of the U.S. electronics industry.

The Electronic Industries Association is strongly opposed to the enactment of H.R. 3211, which would repeal item 807 of the tariff Schedule.

Background

Items 806.30 and 807 allow companies to pay import duties for products processed or assembled outside of the U.S. on only the portion attributable to the foreign content of the product. The value of the U.S. materials or components is, thus, exempt from U.S. import duties. Specifically, pursuant to the provisions of Item 806.30, articles of metal (except precious metal) that have been manufactured, or subjected to a process of manufacture, in the United States, exported for processing, and then returned to the United States for further processing are subject to duty only on the value of the foreign processing. Under Item 807, imported articles assembled in foreign countries with fabricated components that have been manufactured in the United States are subject to duty upon the full value of the imported product less the value of the U.S.-fabricated components contained therein. No further processing in the United States is required for articles imported under Item 807.

One example of the application of Item 807 is the "Maquiladora Program" with Mexico. Below is a discussion of this particular application of 807. This is intended to offer one example, however it should be noted that the U.S. industry also benefits from similar applications with other countries.

The Maquiladora Program (the official title is the Border Industrialization Program) was launched by the Mexican government in 1965. Under the program, foreign-owned companies can establish and operate factories, or maquiladoras, in Mexico. Components, equipment, and materials imported into Mexico to be assembled at these maquiladora factories enter the country duty-free, or in-bond, provided, first, that the maquiladoras employ Mexican labor, and second, that the assembled products are exported to other countries such as the United States.

The U.S. has no control over Mexico's program, but some 90 percent of imports from maquiladora facilities enter under Items 806.30 or 807. Further, Mexican products sold in the U.S. may benefit from a lower tariff attributable to the Generalized System of Preferences, which the United States has extended to certain developing countries like Mexico. Additionally, investment in maquiladoras is made more attractive by the potential for establishing "twin-plants" with labor-intensive plants located on the Mexican side of the border and capital intensive and/or finishing plants located on the U.S. side of the border.

Impact on EIA

EIA's members include a wide spectrum of American electronic firms which have effectively utilized the Maquiladora program. These companies have made substantial investments in plant, equipment and manpower training, and many have been actively exploring expansion of their existing Maquiladora facilities. The Maquiladora program has allowed these companies to make substantial improvements in the overall efficiency of their manufacturing operations, thereby becoming a vital part of the U.S. electronics industry's competitiveness.

EIA Position

The EIA supports continuation of the Maquiladora program without restrictive changes. The EIA supports the careful and appropriate application of existing trade principles, such as country of origin rules, to resolve any allegations of improper use of the Maquiladora program.

Basis for the EIA Position

1. The Maquiladora program benefits the U.S. electronic industry. Companies in the industry can maintain and enhance their competitiveness through the flexible and efficient use of a combination of facilities and resources. Nearly all the U.S. markets for electronics products are highly competitive, and U.S. companies must have the maximum range of options available to them if they are to participate in those markets.

2. The Maquiladora program allows for retention and expansion of U.S. operations in the electronics industry. The physical proximity of Mexico allows companies to perform some labor-intensive production in Mexico, while maintaining other portions of production and product development, testing and marketing in the United States. If the labor-intensive operations had to be performed in countries farther from the U.S., the survival of those U.S. portions of the manufacturing process would be jeopardized.

3. The Maquiladora program benefits American users of electronic products. This is especially important for business and industrial users, who must strive to be competitive in their own markets. The added availability and lower prices made possible by the Maquiladora program are important to these companies and industries.

4. The Maquiladora program has brought new industry to economically depressed regions of Mexico. This has three distinct benefits for the United States: the debt-related risks are reduced for the American banking system; the 350,000 new jobs brought to Mexico by these programs should ease the flow of illegal immigration into the United States; and political stability is promoted in America's neighbor to the South.

5. American communities along the Mexican border have enjoyed a boom of new industry as companies establish new U.S. facilities in close proximity to their "twin" Maquiladora facilities in Mexico. These communities also benefit from the increased spending power of Mexican Maquiladora workers, who spend a high percentage of their wages on the U.S. side of the border.

6. The benefits described above occur without regard to the country in which a company is headquartered or the total U.S. content in any product of component produced in a Maquiladora plant. The duty-reductions available from items 806.30 and 807 already apply only to the extent of the value of U.S. components contained in the imported product, providing a major and significant incentive to use U.S. parts. The Mexican investment incentives have provided direct benefits to the U.S., as a wide variety of non-U.S. companies use the Maquiladora program to supply increased U.S. production facilities. Further, any attempt to place restrictions on the Maquiladora programs would jeopardize U.S. efforts to open up other countries' investment markets.

Submitted by
Lisa Kjaer
Director, Government Relations
Electronic Industries Association

[BY PERMISSION OF THE CHAIRMAN:]

January 14, 1988

Trade Sub-Committee,
House Ways and Means Committee,
The Longworth Office Building,
Room 1102,
Washington, D.C.
U.S.A. 20515

Re: Bill #H.R. 3211
Proposal to Change Tariff 807.00

Gentlemen/Madam;

On behalf of Emerson Electric Canada Limited, Special Products Division and White-Rodgers Controls Division, I would like to formerly protest the passing of the above Bill into Congress. We just received a notice of this proposal from our U.S. Customs Broker, C. J. Tower and Sons.

As a Canadian manufacturing company owned by a U.S. parent, we are currently manufacturing several product lines in Canada which contain U.S. content. These goods are being sold to our U.S. parent company and sold throughout the world. Currently our U.S. parent is only paying duty on the Canadian portion of the goods being sold. If the U.S. consignee were to pay full dity on Canadian as well as U.S. content this would ultimately affect the price of the goods to the consumer, as someone would have to absorb these additional costs.

From the Canadian point of view, this could mean the difference of manufacturing in Canada or moving the product to another country altogether.

Presently, with the use of assembler's declarations showing in detail U.S. goods and costs as well as audit checks from Customs in Canada, it is very clearly shown on export B13's the exact U.S. content and dollar value. I do not believe the U. S. importer should be expected to pay duty on U.S. goods.

Yours truly,
EMERSON ELECTRIC CANADA LIMITED

Marlene Kay

Marlene Kay,
Manager, Customs and
Purchasing.

EMERSON ELECTRIC CANADA LIMITED
P.O. BOX 150
MARKHAM, ONTARIO L3P 3J6
TELEPHONE: (416) 294-9340 TELEX: 065-24226

GARRETT

The Garrett Automotive Group
3201 West Lomita Boulevard
Torrance, California 90505-5064, U.S.A.
Telephone: (213) 530-1981
Telex: 66-4278 AIRIND TRNC
Fax: (213) 534-5841

Allied Signal

02 December 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. HOUSE OF REPRESENTATIVES
Room 1102
Longworth House Office Building
Washington, DC 20515

Subject: Comments on H.R. 3211

Dear Sir:

It is our considered opinion that passage of H.R. 3211 would have a serious negative impact on our company. Therefore, we are requesting the Committee on Ways and Means, U.S. House of representatives not act favorably on this proposed legislation.

The Garrett Automotive Group has been using the 807.00 program successfully for nearly three years. Our decision to utilize the 807.00 program was based on the serious reduction in our market share due to aggressive foreign competition. This deterioration, over the past few years, has forced reductions in the work force of our North American operations.

In order to reverse this reduction in our force of U.S. workers, we have developed a program utilizing item 807.00. It has been our experience that we have significantly reduced our product costs, expect to stabilize and increase our market share and significantly increase productivity with the 807.00 program.

At present, we have over 2,000 U.S. employees directly working on our products in our plants in California.

Our U.S. suppliers are mainly located in California; however, we also buy supplies from at least twenty other states. We are not aware of the number of workers at our suppliers but estimate that the number exceeds our own work force.

Workers in our 807.00 plant have all the benefits required by Mexican law and generally work in better conditions than the local industry.

We estimate that a repeal of 807.00 would have a serious impact on our company and would force us to make significant reductions in our total work force.

It is strongly stressed that the future of our company and the jobs of many U.S. workers would be negatively impacted by repeal of item 807.00 of the Tariff Schedules of The United States.

We therefore are requesting, in the strongest possible terms, that item 807.00 be maintained and not be amended as proposed in H.R. 3211.

Thank you for your consideration.

Sincerely yours,

Fred Bonilla

FRED V. BONILLA

STATEMENT OF
STEVE BECKMAN, INTERNATIONAL ECONOMIST
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
to the
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
on
HR. 3211

December 4, 1987

Mr. Chairman, thank you for providing this opportunity to present the views of the UAW on H.R. 3211, a bill to repeal item 807.00 from the U.S. tariff schedule, to the Subcommittee. We commend Congressman LaFalce for taking the lead in raising public awareness of this tariff item that fosters foreign assembly of parts and components produced in this country by requiring no tariff payment on the U.S. value. The impact on the U.S. economy of the foreign processing and assembly of U.S.-made goods that reenter the U.S. is one that has concerned our union for many years.

The discussion of the effect of this tariff classification on U.S. employment and competitiveness has recently revolved around the Mexican Maquiladora program. Because Mexico is by far the largest source of duty-free import value under item 807, Administration officials have asserted that it is a preferable site for investment by U.S. companies compared with other foreign countries which, they claim, are less likely to use U.S.-made components in assembling manufactured goods for export to the U.S. They argue that such investments in Maquiladora production mean more jobs for Americans than the only alternative considered — investment in production in the Far East. Another piece of their analysis of the growth of the Maquiladora program is the significance of foreign investment in keeping Mexican workers employed and the Mexican economy growing.

The UAW believes that this analysis is simply wrong. We dispute the notion that imports from Mexico enhance U.S. employment just because some of the value in the imports originated in the U.S. The assumption that there is a fundamental difference between the U.S. value in imports from the investments by U.S. companies in Mexico as opposed to other nations is unsubstantiated. The argument that the only alternative to investment in Mexico is investment in another cheap labor export platform seriously misleads the public. The claim that U.S. production and employment are made "more competitive" by foreign processing or assembly is mere apologetics for firms facing intense competition that seek justification for choosing the easiest solution for themselves, not the best solution for the U.S. economy and American workers. Finally, it is not at all clear that the benefits to Mexican workers and their local economies of this type of investment outweigh the costs in lost alternative uses for Mexican resources, low pay and little training for workers and restrictions on the contribution Maquiladora plants can make to the local supply of goods. The reality of the Maquiladora program, and other foreign investments by U.S. firms aimed at supplying the U.S. market, is that it weakens the U.S. economy and contributes little, if anything, to sustainable economic development abroad. The employment effect of imports benefitting from the TSUS 807 tariff provision is decidedly negative for Americans.

We recognize that the availability of partial duty-free entry of imports under TSUS item 807 is not the decisive variable in all such investment decisions. However, in corporate decisions regarding the location of operations in which assembly is a major component, we believe TSUS item 807.00 is a significant element in giving an advantage to foreign sourcing and investment. The wide differential in wages, benefits and working conditions between the U.S. and many developing countries makes it possible to cover a variety of the costs associated with foreign operations, such as shipping, insurance, inventory financing, and the investment in the foreign country (part of which is to hire and train workers, replacing those formerly performing the work in the U.S.).

In Mexico alone, there are now about 300,000 workers in Maquiladora plants, producing for the U.S. market. We have estimated that up to 70,000 of these workers are involved in manufacturing and assembly of products for the auto industry. The plants are subsidiaries of GM, Ford, Chrysler and major U.S. parts suppliers. These are jobs that were performed in the U.S. and should still be performed in the U.S. The devaluation of the peso since the onset of Mexico's debt crisis in 1982 has sent Mexican border-area wage rates, calculated in dollars, plummetting to about 50 cents per hour. Maquiladora investment and employment have grown dramatically since then, and continue

to grow at an extremely rapid rate. Employment is expected to reach one million by 1995. Certainly these operations would be considerably less attractive to U.S. firms if the benefits of TSUS item 807.00 were not available.

This fast expansion of Maquiladora operations is contributing to both the worsening U.S. trade balance in manufactured goods and the decline in manufacturing employment. To restore balance to our international accounts and vitality to our industrial base, a strong commitment to investment in U.S. manufacturing is essential. Without this commitment, the U.S. will continue to lose its technological lead in production and the high-productivity jobs that are related to it. These jobs have traditionally provided decent incomes for American workers. Recent experience shows that a large proportion of the workers losing manufacturing industry jobs have been reemployed at jobs that pay considerably less. The impact of the decline in U.S. manufacturing on the living standards of American workers has already been documented in a number of studies published recently.

A successful approach to the serious problems facing U.S. manufacturing operations requires cooperation among business, labor and government and a long-term commitment to strengthening U.S. production. TSUS item 807 offers support for a short-term solution that may be profitable for individual firms, but weakens the country's production capability and, thereby, the U.S. economy. Pursuing the foreign production and assembly option leaves laid off workers, closed plants, devalued capital investments and weakened communities in its wake. The long-term competitiveness of the U.S. is undermined by the exit of firms choosing this path. We have seen small assembly operations abroad mushroom into large manufacturing facilities that then attract the engineering and technical support work to keep them efficient. This pattern is part of the problem facing U.S. producers; it is not a solution.

The high U.S. value of goods entering the U.S. from Mexico under TSUS item 807 has been interpreted by the Administration and promoters of the Maquiladora program as an argument in favor of more U.S. investment in Mexico because it "contributes to preserving U.S. jobs." The reason for the relatively high U.S. value in these imports is that the production of that value is more profitably carried out in the U.S., while the costs involved in moving the other operations to Mexico are outweighed by the benefits to the firm of, primarily, lower labor costs. Mexican wages, at current exchange rates, are far below those in other newly industrialized countries (NIC'S) where similar investments are in place. The relatively high value of U.S. content in 807 imports only indicates that the work in Mexico is a direct transfer of work that was previously done by American workers and that the jobs in Mexico are a direct corollary of the jobs lost in the U.S. This is the nature of the employment impact of TSUS item 807. The low cost of labor in Mexico makes the duty payable on goods shipped back to the U.S. extremely small because of the use of TSUS item 807. Thus, the tariff code fails to effectively protect the U.S. workers; it is put at the service of American companies looking for easy ways to cut costs.

When it comes time to re-invest in the operations making the components that are shipped to Mexico for assembly, where will that investment be located? Many companies will look at their short-term self interest and decide to consolidate their operations in Mexico. With important pieces of their operations already abroad, taking advantage of TSUS item 807 and other inducements to foreign investment, even more U.S. jobs will then be lost and the competitiveness of American industries will be further eroded.

There is no reason to believe that the high U.S. value in imports under 807 from Mexico will continue. We can only assume that the same effort to reap short-term gains sought by U.S. firms moving work to Mexico now will encourage further foreign investment, not the strengthening of U.S. production. In addition, an influx of Japanese firms into the border area is expected soon. This investment would be an alternative to moving to the U.S. to produce. Producing in Mexico offers easy access to the U.S. market and attractive exchange rates for shipments from Japan and then from Mexico to the U.S. When this occurs, U.S. 807 imports will rise sharply, but the new imports will contain a relatively small amount of U.S. value.

The focus of the Administration on the advantages of Mexican production for U.S. firms is the reason we have emphasized the problem of 807 imports from Mexico. The argument is explicitly made that the alternative to high U.S.-value imports from Mexico is low U.S.-value imports from the Far East (Taiwan, South Korea, Singapore, Malaysia, etc.). In other words, if U.S. firms do not move assembly work to Mexico, they will move their whole production operation to the Far East. We find this claim to be wrong in two respects. First, it denies the possibility of making U.S. production and assembly competitive through the efforts of the firm to make needed investments and to work with other domestic constituents, including workers, to improve economic

efficiency. Second, it assumes that assembly operations alone cannot be transferred to East Asian NIC's. This would certainly be news to the U.S. semiconductor industry, which uses foreign assembly and re-export to the U.S. extensively. In fact, in 1984, the U.S. value of imports under TSUS item 807.00 from the Philippines and Maylasia compared to the total value of U.S. imports from those countries was higher than the similar ratio for Mexico. A sizable amount of U.S. value also enters the U.S. under TSUS item 807.00 from South Korea and Singapore. Mexico has no monoply on assembly operations tightly linked to U.S. production and sales. The Far East has been similarly used by U.S. and foreign multinational firms. The ability to use 807 is a contributing factor to work being performed in these countries, rather than in the U.S., as well. Because of the political sensitivity in this country to the Maquiladora program, we have more extensive data on jobs lost to Mexican operations. In the auto industry, there have also been tens of thousands of jobs lost to production, assembly and processing operations in many other countries that benefit from TSUS item 807.

One other piece of the 807 issue on which we disagree with the proponents of Maquiladora production is its impact on Mexican workers and the Mexican economy. We are fully aware of the poverty, unemployment and underemployment and the huge foreign debt obligations that burden Mexican workers and their families. We do not believe, however, that creating jobs at poverty level wages is, in any way, a constructive solution — yet that is what the Maquiladora program provides. It is that poverty and despair that drives Mexican workers, most of them women, to take jobs in Maquiladora plants; but they are jobs that perpetuate poverty rather than relieve it. Since it is largely the cheap cost of labor that motivates firms investing in the border area, the actual diminution of the poverty of the workers would not be in the employers' interest.

The UAW, on the other hand, has a long standing tradition of support for worker struggles aimed at raising living standards, improving working conditions and creating the basis for democratic economic development. By these criteria, the Maquiladora program fails. Because the investments in Mexico are primarily a response to recent exchange rate trends that have reduced wages below the level in other NIC's, they do not provide a solid basis for economic development. The goods produced at the border are destined for the U.S., not the Mexican market, so the output does not expand consumption for the workers or other Mexicans. The low wage rates guarantee that the income of Maquiladora workers will generate scant business for merchants in Mexican communities. The U.S. government, through the elimination of TSUS item 807 could take the additional tariff revenue and use it to stimulate broad economic development that would benefit Mexican workers of today and build the basis for greater prosperity in the future. The UAW is more than willing to support such U.S. efforts, but the current programs that benefit profit seeking U.S. firms must be abandoned first.

Our critique of the Maquiladora program applies equally to the programs of other countries that rely on cheap labor, government incentives, special tariff breaks and export incentives to attract foreign investment that does not serve the local market. TSUS item 807 is used in conjunction with these foreign incentives to both justify firms' movement of jobs and production abroad and to bolster their threat to U.S. workers that American jobs will be lost unless the U.S. workers reduce their standards for living and working conditions to meet the standards in developing countries. The abuse of basic labor rights (to organize and bargain, to a minimum age and minimum standards for wages and working conditions) is often an integral part of the inducements foreign countries offer to potential investors. American workers are, then, forced into direct competition with their oppressed counterparts abroad through the international mobility of capital. Whether the U.S. firm makes the foreign investment or not, U.S. wages and working conditions are placed in jeopardy. Foreign workers are, in many instances, discouraged from demanding the right to exercise basic freedoms because of the military strength of their governments and the fear that the still mobile capital can again move to where workers are even more oppressed. Recent events in South Korea and South Africa show the close relationship between demands for political democracy and for democracy in the workplace. While TSUS item 807 are not the crucial element in this process, the tariff advantage they provide multinational firms is an integral part of this malicious misuse of workers.

Mr. Chairman, we believe that repeal of TSUS item 807.00, as proposed in H.R. 3211 would be a step in the direction of encouraging competitive manufacturing production in the U.S., strengthening the industrial base of the U.S. economy and defending the employment of millions of American workers in jobs that provide decent incomes because of their contribution to the economy through high productivity. The difficulties facing the U.S. and the world economy today are daunting. The way to solve them, though, is not by encouraging the owners of capital to hold a global bidding war for the right to put that capital to use, however temporarily, to provide employment. The owners of capital, under those conditions, have a strong incentive to keep their commodity relatively scarce, so it will be more valuable. The policies of the U.S. that

promote foreign investment help to produce such a bidding war and 807 is one of those policies. It would be a small step, but one well worth taking, to end this program and refocus the efforts of the U.S. government on domestic policies that strengthen the U.S. economy and on international policies that foster broad-based, democratic economic development.

UNITED AUTOMOBILE · AEROSPACE · AGRICULTURAL IMPLEMENT WORKERS of AMERICA (UAW)

LOCAL 599

812-820 LEITH STREET FLINT, MICHIGAN 48505

December 14, 1987

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Room 1102, Longworth House
Washington, DC 20515

Dear Sir:

I am writing regarding bill HR3211, which has been introduced by Congressman La Foll of New York.

Let it be known that I appeal to your sense of not only 'good judgment' but also to your committment to these United States of America as a representative of the working people of this land.

This country and it's elected representatives can no longer ignore what foreign imports have done to the job and labor market in this country. Then, when you take into consideration the fact of so many industries relocating to other countries where they can get goods produced at 'disgraceful' wage levels, the ramifications are even so much more profound on this Nation.

I, as an elected official of this proud labor union, on behalf of the membership of not only my Local but all UAW members, appeal for your SUPPORT of HR 3211. We owe it to our children to keep America's jobs in America, or our entire future shall be in doubt.

Thanking you in advance for your considerations...

Respectfully submitted,

James C. Wheeler,
Financial Secretary

JCW:njl
opeiu:393/MEG

Statement of the Joint Industry Group
Submitted in response to H.R. 3211
at the request of the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
December 4, 1987

The Joint Industry Group, a business coalition of trade associations, manufacturing firms and other business and professional firms concerned with customs matters, is responding to the request of the Subcommittee on Trade for comments on H.R. 3211, a bill to repeal tariff item 807.00 of the Tariff Schedules of the United States.

The Joint Industry Group is strongly opposed to the enactment of H.R. 3211. Tariff item 807.00 allows "articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating and painting" to be assessed "a duty upon the full value of the imported article, less the cost or value of such products of the United States." Simply put, the value of the U.S. components assembled abroad is exempted from customs duty upon re-entering the customs territory of the United States.

Item 807.00 applies only to U.S.-fabricated components that are exported ready for assembly and that do not lose their physical identity in the assembly process. Assembly operations of U.S. components abroad may include sewing, gluing, force-fitting, laminating, crimping, screwing, nailing, riveting, soldering, welding, or the use of fasteners. They may also include operations incidental to the assembly process, such as cleaning, removing rust or grease, applying preservative paint or coating, trimming or filing, placing holes in a components for ease of assembly, and cutting to length of wire, thread or similar products exported in continuous length. Final calibration, testing, marking, sorting, and folding of assembled articles are also incidental to the assembly process. Specific examples of operations allowed under item 807.00 include:

--Assembly of cut parts of wearing apparel by sewing, hemming or stitching.

--Installation of U.S. products in articles of foreign manufacture, such as U.S. engines and equipment in foreign-made commercial aircraft or automobiles.

--Assembly of baseball and softball covers and their cores by sewing or stitching.

--Assembly of U.S. electrical products by soldering and other operations.

In its simplest sense, therefore, tariff item 807.00 merely extends the concept that U.S. customs duty should not be applied to the U.S. content of imported articles when the customs value of such content can be established. As such, the tariff item gives recognition to the product of U.S. manufacture. In fact, it acts as an incentive for multinational corporations to use U.S. content in their products when its preferential character favors sourcing in the U.S. to reduce end item cost. This fact is important because both U.S. and foreign companies may import under item 807.00, as long as U.S.-fabricated components are used and remain identifiable when imported in the assembled article.

Tariff item 807.00 has existed in its present form since August 31, 1963, the effective date of the current TSUS. It was formulated in the Tariff Classification Study to place on a sound basis an anomalous but well-established practice arising under paragraph 1615(a) of the Tariff Act of 1930 as a result of a 1954 decision of the United States Customs Court. Under paragraph 1615(a),
American goods returned to the United States that had not be "advanced in value or
improved in condition by any process of manufacture or any other means" could receive duty-free treatment.

The Customs Service, in attempting to determine which components should receive duty-free treatment, used a criterion of "constructuve segregation," under which U.S. components had to meet requirements of identification and removal without injury. The U.S. Customs Court in 1954 decided that labor expended abroad to assemble U.S. components with other components did not advance the value of the U.S. components. It also

found that U.S. components contained in imported articles would qualify for duty-free entry, if such components could be identified as the identical product exported from the United States, without having been changed in any manner other than by assembly into a new or different article.

Other developed countries, such as the members of the EC, have similar provisions in their trade statutes and tariff schedules. The new U.S. tariff schedules implementing the global Harmonized Commodity Description and Coding System (Harmonized System) scheduled to go into effect January 1, 1988 also provide for this concept, with language unchanged from the current TSUS, in item 9802.00.8000.

The growth in trade under tariff item 807.00 in the past twenty years has been dramatic. In 1966, total 807.00 trade was $0.9 billion, with U.S. content comprising $0.1 billion. By 1986, the volume of 807.00 trade had grown to $36 billion, with U.S. content accounting for $5.9 billion. Industries using and deriving economic benefit from this tariff item range from agricultural and forest products; textiles, apparel, and footwear; chemicals, coal, petroleum, natural gas and related products; minerals and metals; machinery and equipment; electric household appliances; telephone and telegraph apparatus; television apparatus and parts; motor vehicles; recreational products; and miscellaneous manufactures, including many toys and games.

Repeal of tariff item 807.00 would not make economic sense and would have negative repercussions in the wide range of industries listed above. Since item 807.00 gives recognition to and incentive to use U.S. product, its elimination would treat U.S. content in the same way as content from any other country is now treated - as dutiable. We would be saying, in essence, that there is nothing unique about the product of U.S. manufacture that warrants duty-free treatment and the incentives for use that this treatment provides. An undesirable but probable result of repealing item 807.00 would be product sourcing on cost alone, since there would no longer be a tariff preference incentive for utilizing U.S. components. In such a situation, U.S. component manufacturers might well lose a competitive edge against foreign manufacturers for the U.S. market since overall cost may be lower abroad.

Those U.S. workers now producing the nearly $6 billion worth of products destined for use in 807.00 operations abroad would find their jobs in jeopardy. To maintain that the elimination of item 807.00 would return jobs to the United States is extremely shortsighted. Many U.S. companies have repeatedly testified before the Congress and other U.S. government agencies that the ability to use item 807.00 has enabled them to preserve U.S. jobs by providing the means to lower overall production costs while keeping higher-skilled and higher-paying positions in the U.S. In fact, many of these same companies have stated that the repeal of item 807.00 would force them to close down their U.S. operations and shift the entire process abroad.

It is also important to note that many of the most successful 807.00 or production sharing operations achieve their success because such arrangements allow the parent corporation to retain control of its business operations, proprietary and patent rights, and manufacturing bases. Using item 807.00 as part of an overall global manufacturing strategy provides a U.S. firm with better assurance that its products will not be unlawfully copied, manufactured or distributed.

Finally, any discussion of the economic impact of item 807.00 is premature until the U.S. International Trade Commission completes its study on the subject, Investigation 332-224, which was requested earlier this year by this Subcommittee. The last such study, completed in 1970, showed clearly that the existence of tariff item 807.00 provided a positive effect on U.S. businesses and communities, and on the overall balance of job opportunities. Given the increased economic pressures of a global economy and export-led economic growth in developing countries, we feel that the existence of item 807.00 is even more important today. For this reason, we reiterate our opposition to H.R. 3211.

TRADE ASSOCIATIONS OF THE JOINT INDUSTRY GROUP

AEROSPACE INDUSTRIES ASSOCIATION
AIR TRANSPORT ASSOCIATION OF AMERICA
AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS
AMERICAN ELECTRONICS ASSOCIATION
AMERICAN PAPER INSTITUTE
AMERICAN RETAIL FEDERATION
AUTOMOBILE IMPORTERS OF AMERICA
COMMITTEE FOR PRODUCTION SHARING
COMPUTER AND BUSINESS MANUFACTURERS ASSOCIATION
COUNCIL OF AMERICAN-FLAG SHIP OPERATORS
ELECTRONIC INDUSTRIES ASSOCIATION
FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA
INTERNATIONAL FOOTWEAR ASSOCIATION
INTERNATIONAL HARDWOOD PRODUCTS ASSOCIATION
MINNESOTA WORLD TRADE ASSOCIATION
MOTOR VEHICLE MANUFACTURERS ASSOCIATION
NATIONAL ASSOCIATION OF MANUFACTURERS
NATIONAL ASSOCIATION OF PHOTOGRAPHIC MANUFACTURERS
NATIONAL BONDED WAREHOUSE ASSOCIATION
NATIONAL ASSOCIATION OF FOREIGN TRADE ZONES
NATIONAL CUSTOMS BROKERS AND FORWARDERS ASSOCIATION
NATIONAL RETAIL MERCHANTS ASSOCIATION

November 19,1987

The Honorable
Dan Rostenkowski
2111 Rayburn House Office Building,
Washington D.C. 20515-1308

Dear Representative:

HR3211 represents a serious threat to the well being of many of my companies U.S. based employees.

Kemet Electronics has plants in Mexico utilizing TSUS 807. These plants manufacture electronic capacitors from raw material and sub-assemblies made in the U.S.A.

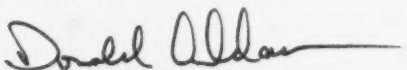
Over Twelve hundred (1,200) U.S. jobs can be identified as supporting Kemet's Mexican assembly operations.

Without favorable import treatment on re-entry of U.S. manufactured components many of these jobs will be in jeopardy of being lost to the Far East countries.

In addition, because of the Maquiladora concept and TSUS 807 many of these U.S. jobs were created. Some of the products we build in Mexico have never been built in the U.S. Therefore they do not represent a job loss to the U.S. Quite the contrary, these products have generated over six hundred (600) jobs in the U.S. to supply raw material and sub-assemblies.

Please carefully consider your action with regard to HR3211 and do not jeopardize Kemet's U.S. based employees.

Respectfully yours,



Donald A. Adams
Manufacturing Manager
Kemet Electronics Corporation
P.O. Box 3126
Brownsville Tx. 78520

•Kenner Products
KENNER PARKER TOYS INC

FEDERAL EXPRESS

December 3, 1987

Dianne Kirkland
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Ms. Kirkland:

Kenner Products, a division of Kenner Parker Toys Inc., wishes to express its support for a continuation of 807.00 TSUS. Item 807 provides for a duty exemption on the cost or value of products of the United States on "articles assembled abroad in whole or in part of fabricated components the product of the United States which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition abroad, except by operations incidental to the assembly process, such as cleaning, lubricating and painting." Item 807 was enacted in 1963 for the purpose of enhancing American industry by providing companies incentive to purchase and use American-made products in the offshore production of articles intended for consumption in the United States.

As the attached table states, item 807 TSUS has been used at a steadily increasing annual rate during the last five years. The table further states that use of 807 has increased at an average rate of 15% and that use of item 807 has almost doubled during the last five years.

Item 807 encourages companies, both domestic and foreign, to purchase components in the United States, export them for processing and reimport them. It does not discriminate, nor was it intended to discriminate, against the foreign buyer of the American components. To do so would be counter to the stated intent of item 807. The contribution to American industry by firms availing themselves of item 807 remains the same whether these importing firms are foreign owned or U.S. owned.

The extent to which foreign rather than U.S. origin materials are incorporated into products imported under 807 is irrelevant. Item 807 applies to "articles assembled in whole or in part of fabricated components the product of the United States..." Therefore, the duty exclusion under item 807 applies only to the cost or value of the American-made component and not to that of the

1014 VINE STREET, CINCINNATI, OHIO 45202 • TELEPHONE (513) 579-4000 • TELEX 214-273 • CABLE ADDRESS: KENNER CIN • RAPIFAX (513) 579-4704

foreign-made components with which they are combined or intermingled. The foreign-made component so combined or comingled is imported into the United States at a duty rate consistent with the duty rate of the article of which it forms a part.

Eliminating or otherwise diminishing item 807 will only lead companies to source product components elsewhere instead of sourcing them in the United States. This will provide the incentive to duplicate U.S. origin components abroad which can only result in the loss of U.S. jobs.

Thus, in the interest of the preservation of U.S. jobs, it is imperative that item 807 be recognized for what it is intended to accomplish, that is, the furtherance of domestic American industry regardless of the nationality of the users. Item 807 should not be considered as a domestic benefit offered foreign companies on the use of foreign-made materials.

Very truly yours,

Susan J. Kraus
Assistant Legal Counsel

Litton
Industrial Automation

Lamb Technicon
5663 E. Nine Mile Road
Warren, MI 48091-2593
Telex: 230324
313 497-4000

December 9, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

Lamb Technicon Corp. strongly opposes H.R. 3211, a bill to repeal item 807.00 from the Tariff Schedules of the United States. Lamb is a division of Litton Industrial Automation, of Florence, Kentucky, whose parent is Litton Industries, of Beverly Hills, California.

Lamb manufactures metalworking machine tools and structural welding systems used almost exclusively in automotive manufacturing. Our plants are located in Warren, Lake Orion, and Marysville, Michigan, and in Windsor, Ontario. (We also export Lamb standard components built in our U.S. facilities to an assembly plant in the United Kingdom.)

The use of tariff item 807.00 enables Lamb to achieve maximum efficiency in the operation of our plants in Michigan and Ontario. The Lamb Technicon facility at Warren, Michigan, has overall responsibility for production at all four plants. However, each manufacturing project is assigned to a particular plant in Michigan or Ontario, based upon the currently available capacity at each location. To support this effort, we have a plant at Detroit, Michigan to receive and distribute the jobs in process among the four manufacturing locations.

Those Committee members who know today's machine tool industry need not be reminded of the technological and competitive demands which we face daily in an industry struggling for survival. In our business, we assemble hundreds of millions of dollars in machine components, and our U.S. manufacturing work force is approximately 250. We estimate that at least 30 percent of our U.S. employees will

be permanently laid off if Lamb suffers the competitive disadvantages resulting from the repeal of item 807.

Lamb purchases components from a number of specialized suppliers in the United States. We are both loyal and supportive toward these suppliers, and their employees depend upon our combined efforts. We share the burden of constant efforts to reduce costs and thereby assist in meeting the challenge presented by fierce competition in today's marketplace. Thus, our outside suppliers and their employees would also be adversely affected by any restriction on item 807 treatment for Lamb's products.

Since Lamb's operations involve trade between its manufacturing facilities in the United States and Canada, the repeal of item 807 at this time would undercut the new Free Trade Agreement between the United States and Canada. The purpose of the Free Trade Agreement is to remove barriers to trade, and we understand that all customs duties on machinery such as Lamb's will be eliminated after five years. It makes no sense to repeal item 807 at this time, since the only result would be to penalize Lamb during the period until the customs duties in trade with Canada are eliminated.

Lamb Technicon
5663 E. Nine Mile Rd.
Warren, Michigan 48091
U.S.A.

(313) 497-6000

Peter J. Martz
Senior Vice President

Larry Bannon
Manager, Customs and International Traffic

Liberty Fabrics of New York
Two Park Avenue
New York, New York 10016

Office of the President

December 1, 1987

Mr. Robert J. Leonard - Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Leonard:

Please submit this statement of opposition to the committee members for their deliberations on H.R. 3211:

As a major supplier of lace and elastic fabrics to intimate apparel, activewear, swimwear and outerwear, Liberty Fabrics opposes H.R. 3211, the proposed repeal of item 807.

Liberty sells to major manufacturers in the United States. Most of the larger ones have developed sources for apparel production in the Far East, the Caribbean and other low-wage areas of the world. They ceased purchases of United States fabrics and Liberty lost business to overseas sources.

Since enactment of 807, domestic textile producers have gradually regained market share and are shipping to off-shore apparel manufacturing units who contract for, or are owned by United States garment manufacturers. Liberty Fabrics has benefitted from its participation in 807 and 807A.

Liberty employs 700 people in plants located in Gordonsville, VA, Pawtucket, Rhode Island and North Bergen, New Jersey. It's administrative and marketing office is in New York City where another 100 employees are located. Their job security depends on Liberty's ability to sell its fabric.

Should 807 be repealed, there is little chance that United States garment manufacturers will abandon their off-shore resources and re-establish production in the United States. Rather, they will buy fabrics locally, and textile workers will be quickly joining apparel workers in the ranks of the unemployed.

My obligation to the stockholders and employees of Liberty Fabrics compels me to oppose H.R. 3211. Its enactment will abruptly cut-off an important segment of our business and jeopardize the job security of our employees. I urge the committee to reject this bill.

Sincerely,

Michael Gottlieb
President

THE LOVABLE COMPANY
2121 Peachtree Industrial Blvd.
Buford, Georgia 30518

November 25, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D. C. 20515

Dear Sir:

Comments on H.P.R. 3211

The Lovable Company has been using Item 807.00 for over twenty years. We initially went into this operation for expansion purposes, but fairly soon after starting our 807.00 operation competition, mainly from the Far East, caused this to be essential for survival.

We are in a highly competitive, very labor intensive industry with direct imports from the Philippine Islands, Taiwan, South Korea, Hong Kong, etc. being the main areas from which our chief competition lies. Without an 807.00 operation, particularly at the reasonable prices at which we sell, there would be no way one could compete with the Far East in the current situation.

As ours is a labor intensive product, the cost of labor greatly impacts product cost. The benefit gained by using off-shore labor has a direct relationship to market share by allowing our Company to price its product in a competitive manner. Without the benefits of Item 807.00, Lovable's failure would be almost guaranteed, because the market would not bear the prices necessary to cover the cost of manufacturing in the United States.

Overall productivity is enhanced by the use of Item 807.00 labor as well. The American worker is becoming less and less inclined to jobs that are repetitious and physically demanding such as sewing apparel. The use of Item 807.00 allows Lovable to export jobs that are less attractive to U. S. workers and keep domestically the higher level jobs. This helps the American worker by offering him a more meaningful and fulfilling job, while at the same time offering much needed jobs to developing countries. The result is increased productivity levels both domestic and off-shore which translate to a higher productivity rate for the Company as a whole.

Five hundred U. S. workers are employed mainly in Buford, Georgia, Gwinnett County, with additional people being employed in New York City at our selling headquarters as well as direct salesman covering the entire United States.

Our suppliers are located in the following states: North Carolina, Georgia, Massachusetts, New York, Rhode Island, Mississippi, Connecticut. They employ approximately 60,000 workers.

Our plants are located in the Caribbean area in Costa Rica, Honduras, and Panama. Many of the benefits that the workers get in those plants are statutory, but in all cases, we are above the going wage and above the normal fringe benefits that are mandated by the country.

A repeal of Item 807.00 would more than likely offer us only two choices which would be moving the entire operation off-shore to be able to compete with the Far East on direct imports or else closing the plant completely. I firmly recommend that Item 807.00 be retained as is.

Sincerely yours,

Dan Garson

Dan Garson
Chairman of the Board

IN DEFENSE OF THE MAQUILADORA INDUSTRY

by

Arturo D. (Tito) Torres, President
Maquilmex, Inc.

Undisputably the growth of the maquiladora industry is beneficial to U.S. manufacturers, especially those with labor intensive operations. With Mexican labor costs about one-tenth that of U.S. labor costs, one-sixth that of Japan, and a little more than one-half that of Asia's "four little dragons" (Singapore, South Korea, Hong Kong, and Taiwan), U.S. manufacturers can save huge labor expenses which might help them become more competitive in world markets. In fact, maquiladoras provide a means for U.S. manufacturers to fight low-priced imports. (O'Reilly, 1986)

For Mexico, the maquiladora industry provides one bright spot in its troubled economy. Undoubtedly, Mexico has benefited from the 1,028 maquiladora plants which directly employed approximately 270,000 people who earned about $589 million and provided a foreign exchange value of about $1.3 billion in 1986. (American Chamber of Commerce of Mexico, A.C., 1987)

Very few people would disagree that U.S. manufacturers and the country of Mexico clearly embrace the concept of maquiladoras. However, some people, might still have doubts that maquiladoras might be beneficial to the U.S. side of the U.S.-Mexico border, in particular, and to the United States interior, in general.

Therefore, the purpose of this short essay is to outline some of the benefits the maquiladora industry offers to the U.S. side of the U.S.-Mexico border and to the interior of the United States.

Maquiladora Industry Benefits to the U.S. Border

As mentioned previously, the 1,028 maquiladora plants as of November 1986 employed approximately 270,000 people in Mexico. These maquiladora companies spent about $589 million in 1986 for employee salaries, and--perhaps more importantly--spent $4-5 billion for parts components, and raw materials. Because approximately 35-40 percent of the maquiladora payroll ends up back in the United States, it is estimated that out of every 100 maquiladora jobs in Mexico 21 jobs are created in the U.S. border area--about eight direct and 13 indirect. However, these figures do not include the additional jobs which are created by indigenous suppliers of parts, components, and raw material (Patrick and Arriola, 1987).

Other benefits provided by maquiladoras to the U.S.-Mexico border are summarized as follows:

1. Almost all the maquiladora building equipment and materials such as air conditioning, heating, and plant equipment is bought on the U.S. side.

2. Most maquiladoras establish offices and warehouses on the U.S. side, and some establish plants on the U.S. side.

3. Numerous maquiladora managers and their families move to the U.S. side of the U.S.-Mexican border. These maquiladora executives buy homes, and generally add to the economic and social bases of the community. They are paid high salaries and spend most of their money locally.

4. Most suppliers of materials and services to maquiladora plants locate on the U.S. side of the border, and like maquiladora managers add to the local economic, social, and cultural resources.

5. Suppliers of goods and services employ local people and in turn add to the local U.S.-Mexico border employment and economy.

6. Local residents of the U.S.-Mexico border are employed by maquiladora plants on both sides of the border, as supervisors, managers, and technical specialists thus adding to the local employment; and

7. Maquiladoras buy most of their raw materials, supplies, and components from the U.S. side of the border. Only slightly more than one percent of the materials used by maquiladoras to produce their product is made in Mexico. (Smith, 1987)

Given the enormous benefits of the maquiladora industry to the U.S.-Mexico border, it is not surprising that unemployment has decreased in the U.S.-Mexico border as the growth of the maquiladora plants flourished. It is also logical that the economy of the U.S.-Mexico border improved with the growth of the maquiladora industry.

Benefits of the maquiladora Industry to the U.S. Interior

Some of the less developed areas of the United States have been the U.S.-Mexico border areas. These areas are notorious for having the highest incidence of unemployment and poverty in the United States. By benefiting these U.S. border areas, the maquiladora industry is benefiting the whole United States. As one part of the United States is improved, the whole United States is partially benefited. (Torres, 1987)

However, the larger benefit to the U.S. interior is in the jobs and incomes created by suppliers of parts, materials, and components for the maquiladora industry. Taking a conservative estimate of $4 billion spent annually by maquiladoras for parts, components, and materials means that these suppliers create approximately 68,500 jobs (27,400 direct and 41,100 indirect). Most maquiladora suppliers are located in the mid-western and eastern parts of the United States (Patrick and Arriola, 1987).

While it is true that some jobs go to Mexico as a result of the maquiladora industry, a 1987 study by the prestigious Flagstaff Institute concluded that the high tech sector gained 107,000 export jobs from 1982 to 1986, while the medium tech sector lost 45,000 export jobs and the low tech sector lost 18,000 export jobs. During 1977-1982 manufacturing employment declined 296,000 jobs from 198.2 million to 18.9 million. However, the medium tech manufacturing sector lost 405,000 jobs and the low tech manufcturing sectors lost 525,000 jobs while the high tech manufacturing employment increased 634,000 jobs. This same study explored the thesis that "job creation in the United States depends significantly today on exports of manufactured goods to the less developed countries," and that... "The best policy for the United States to adopt with respect to enabling legislation, such as Tariff Articles 806.30 and 807.00 is to deliberately encourage rapid expansion of manufacturing through production sharing with the less developed countries so they can earn the dollar with which to buy high tech goods from the United States." (The Flagstaff Institute, 1987)

The Flagstaff Institute study clearly specified that it is the low and medium tech jobs which are being exported to other countries, and that high tech manufacturing jobs are growing in the United States. It is also implied that the best policy for the United States is to promote high tech manufacturing jobs in order to export high tech products to less developed countries.

The best way for the United States manufacturing worker to win is to increase technology and productivity--and this is possible through high tech jobs. This, indeed, presents a golden opportunity to upgrade the jobs and skills of the American worker.

While some labor union officials claim that the maquiladora industry takes away jobs and increases unemployment, the problem is really the inability of U.S. companies to manufacture high labor content products at a competitive price. In reality, if not to Texas and Mexico, the jobs would go to Korea, Taiwan, Hong Kong, or Singapore and the jobs created by suppliers of maquiladora materials, parts, and components would go right along with the assembling jobs.

Some United States Union Officials realize that the maquiladora industry saves American jobs. Henry Schickling, President of the 1,800 - Member International Tool, Die, and Mold Maker's Union contends that American jobs would be lost if Congress restricts maquiladoras. "Companies would work for another six months, then some would go overseas," said Schickling "Others would close up, go out of business and say, "the hell with it". It would be the end of the line, no doubt about it." He cites Chrysler Corporation and Micro-Contacts Company of New York as examples of companies that depend on maquiladoras to survive. According to Schickling, "Chrysler's plant in Mexico was an important part of their loan package. He stated that, "If not for Chrysler's Operations in Mexico, they never would have gotten the loan." Micro-Contacts survived while its competiton, Henry and Harmon, went out of business because they were able to compete against the Japanese by using maquiladoras for labor-intensive manufacturing processes. Micro-Contacts, is now one of the few remaining makers of micro-contact switches for computers in the United States. Rather than going offshore or closing up, says Schickling, "Companies should go to Mexico." (Flaherty, 1987)

The editor of Business Week perhaps summarized it better, "Many of the jobs to Mexico might easily have gone elsewhere as U.S. companies send low skill, low wage, work abroad. Better Mexico than Taiwan or Hong Kong. The U.S.-owned plants help our hard-pressed neighbor's economy, and many of the dollars spent in Mexico are used to buy U.S. made goods. The maquiladora program is a conspicuous example of an enlightened trade Policy" (Business Week, 1987).

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Lamb & Lerch
Counsellors at Law

233 Broadway
New York, N.Y. 10279

Cable: Lamlerch N.Y.
Telephone: (212) 608-2700
Telecopier: (212) 513-7206

December 2, 1987

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Re: H.R. 3211

Dear Sir:

By Press Release dated October 22, 1987, the Subcommittee on Trade, Committee on Ways and Means invited written comments on various tariff and trade bills presently under consideration. These written comments, with regard to H.R. 3211, are being filed on behalf of the U.S. companies engaged in the importation into the United States of Mazda motor vehicles from Japan -- Mazda Motors of America (Central), Inc. and Mazda Motors of America (East), Inc. At the present time, every Mazda pick-up truck, every Mazda RX-7, every Mazda 323, and some Mazda 929s contain U.S. fabricated components qualifying for entry under item 807 of the Tariff Schedules of the United States.

H.R. 3211 proposes the repeal of item 807.00. The companies oppose passage of H.R. 3211 and are hopeful that Congress will see fit to continue to encourage the utilization of U.S. fabricated components by foreign manufacturers. The preferential duty treatment that item 807.00 affords to U.S. fabricated components contained in the imported vehicles provides an incentive to importing companies to urge their foreign manufacturers to utilize U.S. fabricated components in the production of the imported vehicles. This accomplishes the desired result intended by the framers of the statute -- increased utilization of U.S. fabricated components in foreign manufactured articles.

The preferential duty treatment afforded, under item 807.00, to U.S. fabricated components contained in imported merchandise does not, in any way, promote the displacement of U.S. employment. Quite to the contrary, the preferential duty treatment afforded by item 807.00 to U.S. fabricated components contained in imported merchandise promotes U.S. employment by encouraging foreign manufacturers to buy components which are fabricated in the United States by U.S. workers.

To repeal item 807.00 would not only be detrimental to the importing companies which enjoy the incentive of reduced duty but would also be detrimental to the United States manufacturer of the U.S. fabricated component which is purchased by the foreign manufacturer. The effect of removing the preferential duty treatment afforded to U.S. fabricated components used in articles assembled abroad for export to the United States would be to eliminate the inducement to the foreign manufacturer to utilize U.S. fabricated components in the production of its merchandise. In the absence of the incentive provided by item 807.00, the foreign manufacturer would be more likely to source the fabricated component in its home (foreign) market and the U.S. manufacturer of the fabricated component would lose sales, possibly resulting in reduced employment.

Based on the foregoing, the companies urge the subcommittee not recommend the passage of H.R. 3211.

Respectfully submitted,

David R. Ostheimer

David R. Ostheimer

TO : Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C. 20515

FROM: Eugene A. Gibbs, Jr.
Chairman of the Board
MBank Brownsville
P.O. Box 2219
Brownsville, Texas 78520

DATE: November 13, 1987

RE : H.R. 3211

H.R. 3211 in part proposes to repeal tariff item 807.00. This is the tariff legislation directly affecting the maquiladora industry along the U.S./Mexican Border. There can be no doubt that the maquiladora industry is well integrated into the U.S. economy. This industry directly supports more than 1,750 major business and more than 1.2 million American jobs. A total of 15,000 American suppliers have been identified by a maquiladora impact survey dated July 17, 1987 conducted by the Department of Marketing, the University of Texas at El Paso. This survey estimates that the total U.S. industry impact may well support over 3,500 major businesses employing 2.4 million American workers.

Because maquiladora source materials and components almost exclusively from American suppliers, the industry has served to retain American jobs that would have been lost to foreign countries if the industry were not located in Mexico. The maquiladoras primary competitive benefit for American industry is that the maquiladora operations have enabled American manufacturing industries to achieve price competitiveness in the U.S and global markets. The maquiladoras represent a vital and viable business alternative for American business that have production and subassembly processes that are labor intensive. Benefits provided by maquiladoras to the U.S and Mexican Border are summarized as follows:

1. Almost all the maquiladora building equipment and materials such as air conditioning, heating, and plant equipment is bought on the U.S. side.

2. Most maquiladoras establish offices and warehouses on the U.S. side, and some establish plants on the U.S. side.

3. Numerous maquiladora managers and their families move to the U.S. side of the U.S./Mexico border. These maquiladora executives buy homes, and generally add to the exonomic and social bases of the community. They are paid high salaries and spend most of their money locally.

4. Most suppliers of materials and services to maquiladora plants locate on the U.S. side of the border, and like maquiladora managers add to the local economic, social, and cultural resources.

5. Suppliers of goods and services employ local people and in turn add to the local U.S./Mexico border employment and economy.

6. Local residents of the U.S./Mexico border are hired by maquiladora plants on both sides of the border, as supervisors, managers, and technical specialists thus adding to the local employment.

7. Maquiladoras buy most of their raw materials, supplies and components from the U.S. side of the border. Only slightly more than one percent of the materials used by maquiladoras to produce their product is made in Mexico.

During the seventies in the Brownsville/Matamoros area, the twin plant program experienced tremendous growth from just three companies in 1967 to 57 companies today. Brownsville/Matamoros is now the second largest concentration of twin plants on the Mexico/Texas border. Matamoros twin plants are responsible for 1,685 direct jobs and 1,854 indirect jobs in Brownsville, which represents 10.9% of Brownsville's total labor force. The twin plant program has helped the community replace jobs lost over the last five years due to the currency devaluation, oil price declines, a major plant closing and several plant reductions, and a severe freeze which decimated Valley agriculture in 1983.

Over 89 million dollars a year is transferred into Brownsville's economy as a result of the twin plant program. Twin plant programs average dollar monthly impact in Brownsville for employment and goods and services purchases is 4.5 million according to a 1986 survey of Matamoros twin plants by the Brownsville Chamber of Commerce Industrial Department. Furthermore, the Chamber estimates that approximately 50% of the 6 million dollars in wages paid each month in Matamoros to workers returns to Brownsville, bringing the total monthly dollar impact to 7.5 million.

The maquiladora program promotes economic and political stability in Mexico providing jobs and encouraging foreign investment. Approximately 40% of Mexico's population is under the age of 15 and job creation is of paramount importance to Mexico's continued social and political stability. The maquiladora program provides jobs for both sides of the border while saving jobs which otherwise be totally relocated to different parts of the world.

The issue facing the American society should no longer be to debate the merits of maquiladoras, but rather how best to bring American management and labor together to plan how to use maquiladoras to promote American industrial competitiveness, both price competitiveness and real income for workers. To do this, the current tariff legislation including 807.00 must remain in place.

WRITTEN COMMENTS OF

McALLEN INDUSTRIAL BOARD

Pertaining to

Legislative Proposal to Repeal

U. S. Tariff Item 807.00

Production-sharing opportunities enabled by Tariff Item 807.00 have been opposed because they encourage the export of U. S. jobs. In fact, maquiladora operations in nearby Mexico have saved U. S. jobs and created new ones that would otherwise have gone to other parts of the world.

Over 2,000 jobs directly associated with twin plants have been created in McAllen since the program began here nearly 20 years ago. As a result of maquilas, over 5,000 indirect U. S. jobs have been produced. Nationwide manufacturing plants in Reynosa, Mexico, involve 3,700 suppliers and an additional 12,432 U. S. workers. Studies estimate that 30 to 40 percent of the wages paid to maquila workers return to be spent for goods and services available on the U. S. side of the border.

If Tariff Item 807.00 were eliminated, there would be immediate loss of 2,000 local jobs, countless jobs along the 2,000-mile U. S.-Mexico border and also in America's heartland. To assume that U. S. companies would return all production to the United States as a result of such a change in legislation (as per opposing views) is at the very least unrealistic.

The long term effects of tampering with the legislation will not only have far-reaching impact on the economy and society along the border but most assuredly on the economy of the entire United States in terms of balance of trade, consumer prices and personal income. It is in the best interest of the United States to enhance the opportunities for production sharing instead of working to restrict or eliminate maquiladora opportunities.

McAllen Industrial Board resolutely opposes H. R. 3211.

Respectfully submitted,

Frank Birkhead, Jr.
Executive Vice President

December 2, 1987

STATEMENT OF THE METALWORKING TRADE COALITION
ON H.R. 3211

Members of the Metalworking Trade Coalition (MTC) very much appreciate this opportunity to offer comments on H.R.3211, a tariff classification bill introduced by Rep. John LaFalce on August 7, 1987.

The Metalworking Trade Coalition is composed of 35 national trade associations representing 29,859 small metalworking plants in 40 states which employ 1.9 million persons and produce $96 billion in annual sales.

MTC is truly an organization of small businesses. There are 49 workers today in the average metalworking plant where products and components for virtually all industrial and consumer goods are made. Member companies are essentially a manufacturer's manufacturer and have thus felt the downstream economic impact of the loss of domestic markets of their manufacturer customer.

MTC was formed in 1981 to advocate the need for comprehensive trade legislation. While we generally emphasize the need for comprehensive reform, these comments are limited to the provisions of H.R.3211.

H.R.3211 would amend the Tariff Schedules of the United States by repealing item 807.00 relating to certain articles assembled from abroad from fabricated components which are products of the United States.

Introducing his bill on August 7, 1987, Rep. LaFalce aptly described its intent as follows:

> "Item 807 of the Tariff Code allows American companies to export components or parts of products abroad for assembly and to reimport the finished product duty-free except for foreign value-added. When this provision was codified in 1963, Congress was told that the purpose was to assure U.S. production and to maintain U.S. jobs, as expanded trade would build the United States and world markets, but U.S. exports have not been aided by item 807, because there are no real exports under this provision.
>
> In actual practice, item 807 has worked in two ways to eliminate U.S. jobs. In the first step, U.S.-made components are shipped to low-wage countries where the product is assembled and the value-added is the low labor cost. In these instances there is a high job loss to America. The second step in the 807 evolution is for companies to follow up assembly abroad by the step-by-step transfer of parts production abroad. The result is the U.S. component input diminishes, often to zero. In these instances, job losses have been massive. The continued operation of item 807 would simply bolster the job losses - at taxpayer expense - that continue to help industry flee the country and erode the Nation's industrial base."

In practical effect, the 807 process described by Rep. LaFalce is a form of indirect imports similar in some respects to the growing problem of diversion whereby foreign producers have every economic incentive to "move upstream or downstream," thereby directly affecting the domestic custom manufacturers of the upstream or downstream component parts.

A major problem, however, is developing measurements of the impact of these various forms of diversion to these metalworking products. American metalworking industries take steel mill products and produce a variety of cogs, gears, and other "widget"-type articles that are used as components of other products. In many cases, U.S. tariff classifications do not include a specific breakout for downstream articles like screw machine products. Those items might enter as "parts" of automobiles or farm equipment.

To date, for example, we are unable to quantify specifically the impact of item 807 imports alone. Nonetheless, some attempts at measurements have been made, and the conclusions are clear in the aggregate:

1. The first example comes from the tooling and machining industry. These producers make the tools, dies, molds and machined parts that are essential to mass production manufacturing in this country. At its height a

$20 billion industry, the tooling and machining sector has witnessed erosion directly proportional to the decline in the U.S. manufacturing base as a result of indirect imports of the products made from the tools, dies and molds they produce.

2. The International Trade Commission recently found that the average level of ball and roller bearings imported directly and as downstream products increased from 22% in 1978-1983 to 28% in 1984-1985. In dollar terms, increases of bearings incorporated into downstream imports went from $173 million in 1978 to $431 million in 1985.

3. The National Screw Machine Products Association has estimated that market penetration by imports increased from 7.9% in 1979 to 11.4% in 1984. There are indications that this penetration has increased even further since then.

4. The forging industry is another example of dramatic increases in downstream product imports. Based on a U.S. International Trade Commission study, imports of forgings in nine categories from 1981 through the first 8 months of 1985 went from 15.6% to 27.2% of the U.S. market. The numbers are even greater in three key product categories. For example, in the period 1981 through 1984, the market penetration by crankshaft imports increased from 43% to 61%, fittings and flanges from 22% to 48%, and undercarriages from 14% to 44%.

5. A recent study analyzes the impact of the downstream phenomenon and underscores its importance to MTC members. According to this study, the steel contained in imports of products such as automobiles and machinery increased by 136% between 1977 and 1985. Over the same years, the steel content of our exports declined by 17%. As a result, the U.S. went from a positive trade balance of 3.1 million tons of indirect trade in steel-containing products in 1977 to an indirect steel trade deficit of 6.3 million tons in 1985. In other words, we had an unfavorable shift of 9.4 million tons of steel during these years. While total steel usage in 1985 was about the same as in 1977 (103.3 million tons vs. 105.3 million tons), apparent domestic consumption of steel products, which is the available market for domestic producers, declined from 108.5 million tons to 97 million tons, a drop of 11%. These changes were in large part due to increases in downstream product imports, from 5.8 million tons in 1977 to 13.7 million tons in 1985. These are tons that could have been supplied by American producers.

6. The Commerce Department estimates that indirect steel imports displaced $8.5 billion or 30% of domestic steel shipments in 1984 alone. The Metalworking Trade Coalition, therefore, supports current efforts to establish an accurate, ongoing Census Bureau data series to measure the U.S. trade balance annually for products containing steel. We, therefore, welcome the decision by the Secretary of Commerce that commits the Commerce Department to help fund the receipt of accurate indirect steel trade data.

7. Earlier this year, in the course of surveying its membership regarding an International Trade Commission investigation of the U.S. automotive parts industry, the Spring Manufacturers Institute received the following types of comments in response to the question of business lost to foreign sourcing:

> "In 1986 we were directly affected by the loss of [over 20] contracts, this [auto company] customer relocated the work foreign."
>
> "Some of our major customers have lost business to foreign competitors - coiling has gone down 1,000,000 per year."

"[W]e generally find that foreign competition has devastated practically every customer we have. We can compete with foreign spring manufacturers, but cannot compete when our customers' products are no longer manufactured in this country."

"The majority of domestic...spring business has gone to Canadian, Mexican, European and British sources. [W]e have lost approximately $3-4 million per year in this area to the aforementioned offshore countries."

"Lost $1.2 million in...springs; $700 thousand in stamping business; $1.0 million in...springs."

"At [a certain division] of [an auto company], they have reduced from [close to 40] spring suppliers to 5 domestic and 2 Japanese. In addition, [a certain Japanese company] has pledged to a facility in 'North America' by August of 1988. For this they have asked for a guarantee of [almost a quarter] of [the] business. Indications are they will be granted this."

"The majority of business lost is a result of the assembly or finished product containing our springs now being made in foreign countries. It is the exception when foreign sources...ship springs to the U.S. that are not part of an assembly. While it is extremely difficult to quantify, I estimate the business lost would be 50 percent of that which remains."

An estimate of the business lost to [three U.S. auto companies] amounted to $10.9 million per year.

"We have had experience with major customers sourcing competitors from foreign countries, especially Japan. One specific division of [a U.S. auto company] has sourced two Japanese companies...over the past year and a half in conjunction with the consolidation of their supplier base. It is our understanding that their goal is to consolidate to two suppliers, one domestic and one foreign, over the next three years. This will have an impact of approximately $9 million in purchased springs."

"Our orders from this [company which supplies components and subassemblies to the automotive market] are off about 20 percent from the 1984 level and the company has informed us that market share erosion due to foreign competition is the reason for this reduction."

"Other...current and past customers purchase from Canadian sources...in excess of $2.0 million annually."

While it is impossible to quantify precisely how much of the foregoing indirect import figures are directly attributable to item 807 of the Tariff Schedule, it appears all too true that Rep. LaFalce's description of the second step in the 807 process is indeed for "companies to follow up assembly abroad by the step-by-step transfer of parts production abroad." All too soon the foregoing figures will, in fact, depict U.S. component input diminishing to zero.

We do not contend that all the increases in imports of metalworking products are due either to upstream or downstream diversion. Nor are they the result alone of the erosion of the original intent of item 807 of the Tariff Code or for that matter, of the Foreign Trade Zones Act of 1934. However, each of these forms of indirect imports are in combination a contributing factor to the cited domestic market share declines.

The evidence does seem clear that these forms of indirect imports are a serious problem and that the incentives for its expansion are growing in steel and many other industries. There is also no doubt that the net effect is to undercut the objectives of our trade laws and our agreements with other countries.

For these reasons, MTC members strongly urge this Committee to review the provisions of H.R.3211. We recognize that outright repeal of item 807 may cause hardship to those domestic manufacturers who take advantage of this tariff classification as a legitimate tool of export promotion. However, because the misapplication of item 807 as a form of indirect importation also harms domestic manufacturers. What is needed, if it exists, is a mechanism that would enable U.S. manufacturers to utilize foreign assembly operations in cases where the only other alternative is a total loss of business to foreign suppliers.

MTC members would, therefore, urge the Committee to undertake hearings on this legislation, particularly in light of the impending issuance of an investigative report by the International Trade Commission on the economic effects of item 807 of the Tariff Schedules of the U.S.

Thank you for the opportunity to present these comments on H.R.3211.

Comments on the Motor Vehicle Manufacturers Association on H.R.3211, Concerning the Repeal of Tariff Item 807

The Motor Vehicle Manufacturers Association (MVMA)* is the trade association for U.S. car, truck, and bus manufacturers. MVMA's member companies produce more than 97% of all domestically built motor vehicles. MVMA welcomes the opportunity to offer comments, requested by the House Ways and Means Subcommittee on Trade, concerning H.R.3211, a bill introduced by Representative John LaFalce, which proposes to repeal Tariff Item 807. This issue has been the subject of various U.S. government policy reviews in recent years. It is also a subject on which a considerable amount of misinformation and confusion has been circulated. MVMA believes that it is important that the policy issues relevant to the consideration of this tariff item be confined to its general purposes and legitimate uses and be distinguished from other questions (such as the Mexican government's maquiladora program) which are related but separate policy issues.

Tariff Item 807 is sometimes characterized as a 'program' which confers some form of tariff 'benefit' on foreign imported goods. It has been cited by critics as a significant cause for the increasingly global production and sourcing practices of U.S. corporations. Some now claim that its repeal would reverse this trend, drawing production facilities back into the United States. But Tariff Item 807 is essentially a line item in the Tariff Schedule of the United States; it is not a program, not a federal government incentive to move production facilities overseas, and not the reason why businesses may choose to source some goods from or assemble some products in foreign countries. It was not intended to provide, and it does not offer, any special 'benefit' to foreign products.

What Tariff Item 807 does is to legitimately recognize the U.S. content of an imported product by allowing duty-free re-entry of U.S. parts and components which have been assembled into finished goods abroad. It recognizes the value to the U.S. economy of the fruits of U.S. labor. Duty is paid in full on the remaining foreign value-added of the imported product. Such recognition is consistent with the duty treatment provided by other industrialized nations (e.g., the EC countries) to the reimportation of their own goods.

The historical precedence for duty free re-entry of U.S. goods, assembled or not, dates back to the beginning of the U.S. tariff system. The Tariff Act of 1790 permitted the duty free reimportation of "all articles of the growth, product or manufacture of the United States." Subsequently, the Tariff Acts of 1846, 1890 and 1930 built on this principle. The courts further developed the doctrine of constructive segregation of American components assembled into articles abroad and subsequently imported. The components were accorded the status of American Goods Returned and were held to be duty-free. The only requirement was that the American components had to be exported specifically for assembly and return. This doctrine remained in effect until ratified by the Congress in the enactment of the Tariff Schedules of the United States in 1963. In 1965, the Congress amended item 807.00 by removing the 'prior intent' language. Item 807.00, as amended, now covers:

> Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operation incidental to the assembly process such as cleaning, lubricating, and painting.

The use of this item is not restricted to U.S. manufacturers or importers, to particular products, or to imports from specific countries. Any product imported into the United States by foreign as well as U.S. firms is eligible to be treated under item 807 as long as the provisions of the item are met. Thus item 807 -- together with item 806.30 -- can be seen as encouraging the use of U.S. products in foreign assembled goods by U.S. and foreign manufacturers.

Opponents of item 807 argue that it serves as an incentive to move production facilities offshore, displacing U.S. jobs and U.S. products. This argument overlooks the longstanding history and experience of the development of the motor vehicle manufacturing industry. The motor vehicle manufacturing industry has always operated on a global basis. While MVMA's member companies represent the vast majority of U.S. vehicle production, most of these companies have also maintained manufacturing and/or assembly facilities in countries as diverse as Argentina (established in 1913), Singapore (1946), France (1925), Canada (1918), Australia (1919) and Egypt (1932). While these facilities may have been established originally to service foreign markets exclusively, in today's highly integrated global trading system, competitive strategies for marketing, production and sourcing can no longer be confined within the limits of distinct national boundaries. The use of Tariff Item 807 is one part of the complex global competitive strategy of MVMA's member companies as well as of the suppliers of parts and components.

Secondly, the U.S. automotive industry and its suppliers are facing increasing competition from producers in other developed and industrializing countries. The impact of this competition on the U.S. vehicle manufacturers has been dramatic and well documented over the past decade. Manufacturers have overwhelmingly restructured their entire operations, and aggressively sought cost cutting wherever possible to make production more efficient, while enhancing product quality. Sourcing and production decisions have obviously been a part of this competitive response. In an era of worldwide competition, the use of item 807 also allows manufacturers and parts suppliers to take advantage of the strengths of U.S. manufacturing -- the protection of patent rights under the strong umbrella of U.S. law, the technological advances achieved in the dynamic U.S. economy, and the highly skilled and trained U.S. labor force.

Additionally, the repeal of Tariff Item 807 would remove the incentive it now provides for U.S. manufacturers to continue whenever possible to use U.S. parts and components in their limited offshore production, and the incentive it provides foreign manufacturers to purchase U.S. parts and components for inclusion in products destined for the U.S. market. It would represent an anomoly in tariff treatment between the United States and its major trading partners. Its primary impact on motor vehicle manufacturers would be to eliminate the use of one policy instrument in U.S. law, which U.S. manufacturers may use in an effort to remain viable and strong global competitors.

Finally, MVMA believes that H.R.3211 would hurt most directly U.S. parts and component producers, not their foreign competitors, and could undermine and not enhance their efforts to become and remain globally competitive producers of world-class products. As a result, MVMA firmly opposes the repeal of Tariff Item 807.

OXFORD INDUSTRIES, INC.
222 PIEDMONT AVENUE, N.E.
ATLANTA, GEORGIA 30308

November 20, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

We appreciate the opportunity to give you input concerning the Oxford Industries, Inc. viewpoint on the use of tariff item 807.00.

Oxford has been an active participant in using the 807.00 program since the early 1970's when we acquired two plants in Mexico for the manufacture of apparel products. Since that time, we have expanded this effort with one additional plant in the Dominican Republic and a third plant in Mexico.

Use of 807.00 has been brought about because of the need to compete with imports from the Far East with an item which may be manufactured without such extensive lead times. Without this option, many of our sales would simply be nonexistent and we would lose business to other manufacturers or more likely to the retail store itself who is involved in self-sourcing programs out of the Far East.

Since the time we have had 807.00 plants and used contractors in the Caribbean basin and Mexico, our total employment, which is approximately 12,000, has increased slightly. In other words, the business which the 807.00 programs represent is business we would not have without this option and our employees, most of whom work in one of our 43 factories located in the Southeastern part of the United States, are not threatened.

Perhaps even more important is that our 807.00 volume is increasing. This is happening at the expense of imported goods from the Far East. In 1985-86 our total sourcing was approximately 40% from the Far East. At the present time, we are sourcing approximately 25% of our goods in the Far East and it is our expectation this number will not increase with the continuation of item 807.00.

Repeal of the 807.00 option would indeed be hazardous to the welfare of our company and many of our employees. There is no doubt we would lose business and those employees, which are involved in servicing 807.00 plants and contractors in the sales, product development, pattern, cutting and shipping areas, would be negatively affected.

We strongly encourage you to keep the 807.00 option available.

Sincerely,

Robert D. Langley

Robert D. Langley
Vice President

Samsonite

Samsonite Corporation
Twin Plants
PO BOX 1116
Nogales, Arizona 85621
Phone (602) 281-9181

November 19, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
Room 1102, Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Leonard:

I am writing with regard to House Bill H. R. 3211, which proposes to repeal Item 807.00 of the Tariff Schedules of the United States.

Repeal of this item would be very damaging to our Company and result in the loss of U. S. jobs and investment.

Samsonite is a world-wide producer and marketer of luggage products with manufacturing operations in the United States, Canada, Belgium, France, Spain, Italy, and Mexico, as well as several licensees world-wide for manufacture of Samsonite brand name product. Our company also contracts with third-party vendors to manufacture product for U. S. and foreign markets.

Our 807.00 operation is located in Nogales, Sonora, Mexico, approximately 6-1/2 kilometers from the U. S. border. It is supported by a highly automated, state-of-the-art, computerized cutting facility located in Tucson, Arizona.

The concept of using Item 807.00 was proposed in 1969 by a group of people at Samsonite as a potential alternative to the total foreign manufacture of soft-sided luggage product, which was the path being taken by most of our domestic competitors. The flood of foreign, mainly Orient, produced soft-side luggage was just beginning to be felt. The quality and quantity of goods was severely impacting our small soft-side business.

(At this point, soft-sided luggage was limited primarily to companion cases and garment bags which were sold to compliment hard-side suit case sets and accounted for approximately 10% of the units sold).

The Nogales, Sonora facility was established in January, 1971 and has operated continuously since then.

The main reasons for our locating in Mexico were:

1.) Proximity to the United States.

2.) Ability to control proprietary technology and designs.

3.) Competitive wage levels of the Mexican worker.

4.) Ability to control directly the manufacturing processes.

5.) Ability to utilize U. S. materials and components competitively.

Our current facility opened in September, 1971, upon completion of a 54,000 sq. ft. building designed to produce vinyl totes and garment bags complimenting our hard-side luggage lines. Over the past sixteen years, the building has expanded to over 162,000 sq. ft. and produces both companion pieces and full line products which are mainly nylon body material. In addition, we produce interiors for attaché cases, luggage locks and other sub-assemblies for our hard-side operation in Denver, CO.

The cutting facility is located in Tucson, Arizona, and opened approximately the same time as the assembly plant in a 20,000 sq. ft. building. This facility has expanded over the years to the current 58,000 sq. ft. and produces cut parts, some hardware parts, and supplies receiving, shipping, and raw material quality control for the entire Twin Plant organization.

The equipment required to produce soft-sided luggage is fairly basic. This is the main reason it is so easy for foreign and domestic manufacturers to enter the industry. In its simplest form, all that is required is a pattern, a scissors, and a sewing machine. Higher quality goods require greater sophistication in cutting and assembly, but the basic techniques remain the same.

As the complexity of the suit case and the cost of materials increased, we found that we could get better material utilization and thus reduce product cost by using computerized cutting. We, therefore, invested over $1.5 Million in computerized cutting equipment in our Tucson facility. This, along with several large presses, forms the nucleus of our cutting plant.

The majority of the equipment in Mexico is sewing machines and rivet machines. We also have two computerized sewing machines that sew parts which require a high degree of precision for positioning or quality. Much of the equipment located in our Mexican plant was manufactured in the United States.

The entire manufacturing process begins with the movement of raw materials to the production floor in Tucson. Parts for the major suit case components are cut on the computerized cutter to a predetermined pattern and quantity. These parts are then loaded onto trucks for movement to our assembly plant in Mexico.

Once in Mexico, the parts are bundled into production lots and entered into the manufacturing/assembly process where they are assembled with other parts (hardware, webbing, zippers, etc.) into finished cases. All of this activity is controlled by several financial and manufacturing systems on computers located in Denver, Colorado and in the Mexican plant.

The plants on both sides of the border are clean well-lighted and as modern as any luggage plant anywhere in the world.

Our current employment in Twin Plants is 750. Of these, 66 are U.S. employees (5 of whom work full time in Mexico) and 684 Mexican

nationals working in Mexico. There are also several people in our Denver offices who are employed as a direct result of our Mexican plant.

In addition to the 66 people in Twin Plants who can be directly attributed to an 807.00 operation, there are many indirect jobs which are dependent on our operation. Our suppliers must have people to manufacture and distribute our raw materials. We purchase nearly 80% of our raw materials from U. S. suppliers. Fabric from mills in North Carolina, zippers and thread from factories in Georgia and Connecticut, cardboard cartons and metal extrusions from plants in Arizona. Some of these suppliers are dependent on us for a majority of their business. In a typical year's time, we purchase nearly 400 different raw materials from 64 vendors located in 18 states. We have estimated that these vendors have 187 workers directly dependent on our 807.00 operation. In a foreign produced suit case, these materials and jobs are foreign.

Compensation of our Mexican workforce is based on the Mexican minimum wage laws. Approximately 20% of our employees in Mexico have a base rate equal to the Mexican minimum wage (currently 5,725 pesos per day). There are a total of five bonus categories based on job difficulty each with a pay premium of 12-15% more than the immediately lower grade. In addition, we pay an efficiency bonus based on individual performance which begins when the employee reaches 70% efficiency and is open ended.

Beyond the regular wages, the employee in Mexico receives the following benefits:

Medical care as provided by Mexican Social Security. Additional medical care is provided by a contract doctor who visits the plant for three hours each day and provides health care to workers and their immediate families. Office care is also available in serious circumstances. A full time nurse is on duty every work day.

Housing aid provided by Mexican "Infonavit" (Housing Tax).

Subsidized cafeteria provided by the company. All new employees receive one week of company paid hot lunch. Regular employees receive a 50% subsidy of the meal cost. We also provide a light breakfast and dinner for those employees who desire it. (These meals are very reasonably priced, but not subsidized).

Basic food commodity assistance. We also provide basic food commodities at wholesale prices to employees - Beans, canned vegetables, rice, flour, and other items are sold at wholesale cost to employees.

Child daycare facilities. We provide daycare facilities for employee's children who cannot be accommodated in the nursery (because they are too old) or who are not yet of school age.

Transportation assistance. Employees located outside the area served by the municipal transportation system and those working other than first shift are provided monetary compensation to cover transportation costs.

Recreational Opportunities. The Company sponsors organized sporting groups such as basketball, soccer, baseball, etc. As well as annual gatherings such as picnics, an open house, and intra-company sports days.

Savings/Loan Plan. Similar to K401 plan with Company matching of funds available for emergency loans. (This particular benefit has just started, so we don't know yet how well it will be received.)

English/Spanish lessons. All supervisory personnel may attend "second" language classes paid for by the company.

Company Paid Retirement Benefits. While required under Mexican Law, most companies do not fund this benefit until the employee actually leaves the company. We fund the benefit actuarially every year.

U.S. Employees are provided with a medical/dental plan, K401 savings plan, retirement benefits and life insurance as well as earned Social Security Benefits and other legally required benefits.

Both groups have paid holidays and vacations.

Of major concern to any operation is the health and safety of its employees. An international border makes no difference as far as we are concerned in areas of health and safety. We have internal reviews of plant safety periodically and recommendations are made as to improvements which can be made where safety is concerned. Safety equipment is provided when required (safety glasses, hand protection, hearing protection, etc.).

There are many benefits of our type operation which accrue not only to Samsonite but also to the general public.

In a global market place, competition comes from the entire world, not just the domestic producer. The luggage consumer wants a quality product which will give him/her lasting durability, provide solutions to his/her packing problems, at a reasonable cost for that product.

In the 10-15 years following World War II, the luggage industry did not really exist in the Far East. In the period of reconstruction, businesses were encouraged to help develop domestic industries in the war-torn countries. We transferred machinery, equipment, technology and know-how to fledgling operations who in turn used that entré to develop products and markets. The major thrust in Japan for example was to overcome the shoddy quality of their luggage manufacturers. With our expertise and their tenacity, they developed high quality, competitive products. Not only that, but they held their unit costs down to a very low level. As their country developed, basic manufacturing products began to cost more than they could reasonably expect to recover in a global market and these items were transferred to lower cost areas such as Taiwan and South Korea. Today we are seeing shifts in luggage manufacture out of Taiwan and South Korea to Thailand, Indonesia and the Philippines. Some contend this is chasing the lowest cost labor to reap profits for big business. The real reason is that there is a utilitarian value for a

product and when the price which must be charged for that product exceeds the value the consumer is willing to pay for that product the market ceases to exist and the consumer finds a substitute for the product.

We have chosen the middle ground of an 807.00 operation for several reasons:

First, we felt an obligation to maintain as many jobs in the U.S. as we could without forcing the product cost up to a level that the customer ceases to buy. We accomplish this by taking the labor intensive jobs off-shore in an 807 operation utilizing mainly U.S. materials (which come from companies employing U.S. workers). We have kept approximately 70 jobs directly which would otherwise be non-existent. Our domestic suppliers also have a portion of their employment dependant on our production as noted previously.

Secondly, by locating in Mexico, we accomplish two major things. We maintain control close to our domestic market and provide some economic benefit for our neighbors to the south.

Thirdly, and admittedly the most selfish, we can protect our proprietary rights of design and technology. With a foreign, third-party contractor, the products we want to bring to market can and do get copied almost before they can be introduced.

All of these items provide benefits to Samsonite, our consumers and the economies of both the U.S. and Mexico.

In conclusion, I would again like to thank the committee for the opportunity to present comments on this bill. Item 807.00 is extremely important and, in Samsonite's case, the sole difference between partially U.S. produced product and a totally imported product. There is no doubt that the U.S. consumer wants quality, utility, and fashion at a reasonable cost. We can provide these things with either an 807.00 operation or 100% foreign source. We cannot provide these things from a 100% domestic source.

Very truly yours,

Jack B. Waddick
Controller, Twin Plants

STEWART-WARNER CORPORATION
WASHINGTON OFFICES
1010 VERMONT AVENUE, N. W., WASHINGTON, D.C. 20005 202/628-0360

JOSEPH J. ENGLISH
MANAGER - WASHINGTON OPERATIONS

Stewart-Warner Corporation vs. H.R. 3211

Item 807.00 enables Stewart-Warner to participate in markets which might otherwise be closed. Most business organizations require their divisional managers to provide a certain after-tax return on the assets they employ. This in turn requires managers to set pricing goals in such a way as to not only be competitive but also profitable enough to meet corporate requirements.

With this in mind, it is grossly inefficient to utilize highly skilled human resources in basic assembly operations. Or, put more directly, it simply is not economically feasible to pay an individual between $10 and $15 per hour to put a nut on a screw. To do so either inflates the price to the point of market rejection or erodes the margin to an unacceptably low level. In either event, successful participation in the market is prevented. Therefore, the ability to assemble products in low labor cost areas, such as Mexico, and return them to the U. S. factory for more sophisticated production phases while paying duty on only the value added, as item 807.00 allows, is understandably important.

Item 807.00 contributes to the preservation of jobs of Stewart-Warner employees in Chicago, Illinois; Indianapolis, Indiana; and Johnson City, Tennessee.

Three Stewart-Warner divisions participate in maquiladora operations in Juarez, Mexico, at which basic assembly operations are performed at a much reduced cost than would otherwise be the case. This permits the continued employment of more highly skilled personnel in the aforementioned communities.

Item 807.00 is a vital component of this cost reduction. The cost to Stewart-Warner of its repeal would total between $120,000 and $150,000 annually--the aftertax equivalent of between $4 million and $5 million in sales. Such an event would certainly put the jobs of some Stewart-Warner employees in jeopardy, adding in some cases to already intolerable local levels of unemployment. The Department of Labor's Bureau of Labor Statistics reports unemployment rates in Chicago and Johnson City at 6.3 percent and 7.0 percent, respectively. This can be compared to more fully employed towns, such as Buffalo, New York, with 5.2 percent joblessness-twenty-five below the rate in Johnson City (United States Department of Labor News, USDL 87-439, Wednesday, October 14, 1987: State and Metropolitan Area Employment and Unemployment: August 1987, Table 3).

The repeal of item 807.00 could tend to accelerate job flight from the U. S. rather than slow it down.

Maquiladora operations exist because of a need to reduce labor costs in what should be a low value-added phase of production. Participation in such operations is vital to continued participation in domestic as well as global markets.

Were item 807.00 to be repealed, a manufacturer would be faced not with the question of whether to return Mexican operations to the U. S., but rather how to offset the additional cost to the product. Healthy margins might accept

the increase while less robust margins might require the transfer of additional operations to Mexico. Indeed, at some point, it could prove difficult to justify continuing the U. S. enterprise.

Finally, it is philosophically incongrous to require an import duty on goods produced in the United States. In an era in which American manufacturers are struggling against high domestic taxes, unfair international trading practices and global competition, the Congress should not pass encumbering legislation making U. S. business more uncompetitive than it already is.

TEXAS AFL-CIO TWIN PLANT TASK FORCE

Renewed attention has recently been directed at the harmful effects of the maquiladora program-an arrangement whereby U.S. companies establish low-wage production facilities across the Mexican border. Late last year the Congress directed the Dept. of Commerce to end its sponsorship of a conference in Acapulco designed to promote increased investment by American firms in Mexico.

A DIRECT AND IMMEDIATE NEGATIVE CORRELATION EXISTS BETWEEN 807.00 AND THE U.S. BORDER WITH MEXICO.

Both sections of the Tariff Schedules have created more unemployment in El Paso, Texas than all the other economic problems facing the state.

On April 12, 1986 Farah Manufacturing, established in El Paso since 1920 announced it would lay off 1,000 employees and move its operations into Mexico. Prior to 1980 the company employed 7,000 workers. After the 1986 lay-off, 1,800 employees remained at Farah Manufacturing -a loss of 5,200 jobs, all of them due to 806.30 and 807.00 of the Tariff Schedules. The 5,200 jobs went to Costa Rica, Mexico and other Central American nations. Billy The Kid Industries, Inc., of El Paso prior to 1980 employed 3,500 workers. In 1986, the work force declined to 500 employees, a loss of 3,000 jobs. Again the jobs were exported to Mexico.

Besides Farah Manufacturing, and Billy The Kid there has been massive lay-offs at Surjikos a subsidiary of Johnson & Johnson also here in El Paso, Kessler Premium Castings, 250 people; GTE 126 people; Sun Apparel, 400 people; Ohio Medical, 140 people and the list goes on and on of Texas companies and other U.S. Manufacturers leaving the U.S. for Mexico.

In January of 1985 Zenith Electronics Corp. dedicated what it termed as Mexico's largest maquiladora or twin-plant. It was at the time the largest with 560,000 square feet employing 2,000 people. In 1987 it had grown to 750,000 square feet employing 5,000 workers. The plant was a replacement of its Evansville, Indiana plant, where 1,400 people were employed at wages of between $6.00 to $7.00 per hour. With four other Zenith plants in operation in Mexico the company would save $300 million per year. Amazingly the company reported a loss of $14.5 million in its 1986 third quarter report.

In the Mid-west as evidenced by the Zenith plant, in Buffalo, N.Y. where Trico Products had a lay-off of 1,000 at its Buffalo headquarters and forced into the streets another 1,200 at the other 3 facilities. 2,200 people lost their jobs because Trico took advantage of 807.00.

In areas that would supposedly benefit the most from the twin-plants, unemployment now seems to be the norm, without any relief in sight.

In Iowa, Zenith Electronics at Sioux City laid-off 1,500 employees at an average wage of $5 an hour. Three other Iowa-based maquilas now employ more than 5,000 Mexican workers: A.C. Nielsen Clearing House, a Clinton coupon processing subsidiary of Dunn and Bradstreet Corp., Ertl, a Dyersville based toy manufacturing subsidiary of Kidde Inc., and Winegard Co., a Burlington electronics firm, all located in Matamoros, Mexico.

Please keep in mind that General Motors, the giant of the 806 and 807 user has not been mentioned nor its divisions like Packard Electric, Delco Products, Delco Remy, Fisher Guide, and dozens and dozens of other U.S. manufacturers that have left the U.S. to take advantage of the as of Dec. 1, 1987 Mexican wages of 5,625.00 pesos per day the exchange rate being 2,400 pesos to one U.S. dollar it equals to $2.34 per day.!!

The surge of the Maquiladora/Twin-Plants taken advantage of 807.00 is in correlation with the Mexican monetary crisis. The weaker the Mexican economy, the more Mexico becomes dependent on the oil industry, tourism, and U.S. firms as a source of revenues. The revenues are generated through the employment of over 350,000 young men and women in the twin-plant industry. 75% of the workforce are women at an average age of 18, while the other 25% is composed of young men. This workforce had created yearly revenues of 1.5 billion U.S. dollars as of August 1987. With the latest peso devaluation the 1.5 billion revenues has been cut to $1 billion, and as the peso continues to drop its value the revenues generated through 807.00 become less and less. This amount certainly is used by Mexico to pay its debt, unfortunately it can not even meet its interest payments, let alone its $100 billion dollar debt. Again an exploitation of the Mexican worker by U.S. business interests.

Since the 807.00 industry is composed 70% of women at an average age of 18 it does not alliviate the unemployment percentages of persons 20 years of age and older. The industry creates its own employment-unemployment. Unwilling to hire mature employees, it chooses 16-year-old children who are naive as to working conditions, politically unaware and inexperienced, passive, accomodating and docile.

From 59 to 64% of workers employed at twin-plants or 807.00 plants, are immigrants from the southern Mexican states. Of that percentage 80% had been living in Juarez an average of five years. In sum the Mexican population is attracted to the border areas by the maquila industry that has taken advantage of 807.00.
If a percentage of those immigrants are retained by the maquila industry, then also a sizeable percentage unable to work in the industry due to its hiring policies certainly ends up in the U.S. as illegal aliens. In El Paso, illegal alien arrests were up 49 percent in the first quarter of 1986 compared to the same period in 1985. The 196,549 illegal immigrants arrested in Texas from January through March of 1986 was 56,916 more than the 139,633 arrested during the same period in 1985. In that quarter the El Paso sector (the state's largest), had 80,055 arrests.

It is proven that 807.00 must share a large amount of blame for the increase of illegal aliens in the United States, and since the 807.00 maquiladora industry only retains the teen-age girl in its' assembly lines, while the more mature Mexican goes unemployed, the unemployed worker crosses the river into the U.S. illegally.

Of the 160,000 estimated employees in the Mexican border in Twin-Plants, pro-maquila groups claim that 40 to 60% of the employees spend their wages in the U.S. border towns like El Paso, Laredo, Brownsville, Del Rio, Tucson and Phoenix. That must be one of the biggest cons promoted by the 807.00 industry. In the U.S. border a relatively inexpensive shirt at K-mart costs between $6 to $15 dollars, a pair of Levis average cost is $18.00, a inexpensive pair of shoes costs from $10.00 to $20.00. Certainly the 807.00 maquiladora worker cannot afford to shop in the U.S. border when his/her wages average $2.34 a day.

The Mexican shopper is not the maquiladora employee. The average Mexican shopper, that keeps U.S. retail shops thriving in the border cities is the upper middle class Mexican. This is the professional with money to spend who comes to the border from Chihuahua City, Guadalajara, Mexico City, and other cities of the Mexican interior. The average assembly line worker in the maquiladora industry is barely able to make ends meet in Mexico withut shopping in U.S. shopping centers or downtown areas of border cities.

Of the top seven poorest metropolitan areas in the U.S., based on per capita personal income, four are in the Texas border with Mexico. Laredo ranked No. 1., McAllen-Edinburg-Mission No. 2., Brownsville-Harlingen No. 3 and El Paso No. 6 with a 1987 per capita income of $8,745.

The tremendous unemployment and poverty challenging El Paso must be attributed to the Twin Plants or 807.00, since it was that section that caused the loss of 14,000 jobs since 1980.

The arguments by the pro-807.00 groups are concentrated in several areas by the main argument, is very true, lower labor costs. There certainly is no argument there. After all no U.S. worker making $9.00 per hour or even $5.00 per hour would be able to compete with a Mexican worker at $2.34 per day. The rest of the arguments fall flat. They do not increase border employment on the U.S. side, on the contrary, as has already been stated

807.00 creates more unemployment. El Paso's unemployment has never been as high. El Paso lost 14,000 manufacturing jobs since 1980 due to the twin-plant industry. Jobs that have been created are generally in the fields of banking, insurance, custom brokerage and related service industries. As we know, in this era of computer technology, banks are able to handle millions of dollars in payroll deposits without adding any employees. The additional paperwork created in the other service industries hardly requires hiring large numbers of employees. The El Paso economy would certainly have far greater benefit from the 14,000 paychecks of the now unemployed, rather than the minimal benefits of the service industries. As far as actual employees hired in the U.S. by the maquila industries, a typical 807.00 plant with a warehouse in the United States; using Zenith as an example, will have 5,000 employees in Mexico and 35 on the U.S. side. Furthermore the U.S. warehouse is not required to hire U.S. citizens, because under the current immigration law green card workers (commuter aliens) are eligible for employment.

Studies made of the Twin-Plant industry have been made, unfortunately The University of Texas at El Paso has been paid $25,000 to release a report titled Project Link which the El Paso Chamber of Commerce, The El Paso Foreign Trade Association and other pro-807.00 groups needed in order to bolster their claims. UT El Paso feeling the impact of the Texas economy and searching for dollars agreed to participate in the study even though Project Link has been an embarrassment to the rest of UT El Paso faculty that did not wish to participate in that study. The study is flawed, biased in favor of 807.00, and even the U.S. International Trade Commission research analyst claim it's a joke, and must not be taken seriously at all. One of the claims of Project Link is that one in four jobs in El Paso is related to the twin-plant 807.00 industry. False claims of that nature have made the study a joke and is an embarrassment and a loss of credibility to UT El Paso.

The loss of jobs in El Paso and Laredo has created several street demonstrations against twin-plants, participating have been diverse groups from Labor Unions to indpendent organizations that have realized that the 807.00 twin-plant concept is destroying the communities with the only financial gainers being the banks and 807.00 plants taking advantage of the $2.34 per days wages being paid to their Mexican employees.

Besides the strong opposition to the 807.00 twin-plants in El Paso and the rest of the state and other U.S. communities, in Mexico there has been many work stoppages, strikes, slow-downs, boycotts and hunger strikes from employees working under starvation wages paid by 807.00 plants, aside from the wages the appaling working conditions in those plants certainly questions the positive impact that type of industry has in Mexico and its future. Particularly since the industry is not integrated in Mexican economy.

None of the border cities collect capital improvement taxes from those plants, since the only improvements made are in the Mexican plant, not on the U.S. warehouse.

The duty assesed only on the value added under 806.30 and 807.00 must certainly count as the biggest loss in revenue ever collected. Figures of from $2 billion to $4 billion are quoted in the value of the product shipped back to the U.S. from 807.00 plants-but only $69 million dollar was collected by the U.S. Customs Service in 1985-86 year on the value added duty of those billions of dollars. Certainly a huge savings for an industry has has closed its manufacturing facilities in the U.S., lays-off U.S. employees, ruins communities, pays starvations wages to it's Mexican employees, takes advantage of U.S. Tariff laws, and probably does not pay its share of U.S. corporate taxes, and sells it's product assembled in Mexico in U.S. stores at the same price as the same item made in Japan or made in the U.S.A.

Another aspect of the 806.30 and 807.00 clauses of the U.S. Tariff Schedules has been that the suppliers of those Mexican plants are the same suppliers that had been providing support for those very same corporations when they were in the U.S. now those corporations being in Mexico are forcing the supplier to extend its transportation to the border, and even also closing it's doors in order to follow the manufacturer and buyer of it's product into the border-but only in rare cases.

Yet another aspect of the 806.30 and 807.00 industry's transportation history is dismal. U.S. drivers are not allowed to either deliver the unassembled product into the Mexican plant and is not allowed to bring the finished product back to the U.S. In total only Mexican drivers are used and hired to transpott the products from the U.S. into Mexico and back to the U.S. In the port of entry of El Paso, Texas with it's border counterpart Juarez, Mexico a daily average of 950 trailer rigs cross the border into El Paso all of them delivering the assembled product from Juarez, Mexico to El Paso. Again another negative impact of 807.00 on the community.

The Texas AFL-CIO Twin-Plant Task Force requests the Ways and Means Committee favor repeal of section 807.00 of the U.S. Tariff Schedule.

Including the Texas AFL-CIO Twin-Plant Task Force requests that if necessary further hearings be held to investigate 807.00.

Furthermore the Texas AFL-CIO Twin-Plant Task Force respectfully requests the Ways and Means Committee give favorable review to H.R. 3211.

The Texas AFL-CIO Twin-Plant Task Force is more than willing to provide testimony either written or verbal concerning the negative impact of sections 806.30 and 807.00 of the U.S. Tariff Schedules.

We can no longer afford to support 807.00. A concept that destroys jobs of American workers, destroys their dreams, their security in their old age, their children's security and is undermining the American dream.

December 1, 1987

Comments in response to H.R. 3211

Submitted by: Blas M. Martinez
Executive Vice President
Union National Bank of Laredo
P.O. Box 699
Laredo, Texas 78040-0699

Congressman John LaFalce:

Mr. Chairman. Members of the committee. My name is Blas M. Martinez. I am executive vice president of the Union National Bank of Laredo in Laredo, Texas.

I have lived in Laredo all my life. My wife and my children call Laredo home. I am the Vice President of the Board of Governors of the University System of South Texas, the governing body for five (5) upper-level colleges and/or universities.

In addition to my banking experience, I have also been engaged in the importation and export of food and frozen juice; and other items to and from Mexico.

I know from my many years in South Texas the importance of the Maquiladora or the Twin Plant operations to this area.

Throughout the past 86 years, South Texas has been the orphan of the State of Texas. The oil boom passed this area south of Coupus Christi and west to Del Rio. There has been some economic benefits from the exploration for natural gas but that has been minor.

Agriculturally, South Texas farmers and ranchers have not accumulated enormous wealth from their work.

Colleges and universities have operated on a catch-as-catch-can basis. The secondary schools have generally speaking been under financed and lacking facilities because of the low tax base.

Traditionally the border cities, almost without exception, from Brownsville to El Paso - to Calexico, California; have been more than 50%; sometimes more than 90%; reliant upon trade, daily business with other stores, and the people in their cross the U.S. - Mexico border, neighboring city.

A history of the economic aid to the U.S. cities on the nation's speaks volumes. The U.S. citizens on the border have struggled for years abd have been "poor country cousins," at the very best.

Within the course of the past decade, there has developed, within the framework of Mexico's trade laws, a unique program of Production sharing which has been the first and only economic development the U.S. border cities have experienced.

Following the years of economic drought in the United States border cities, the advent of the Production Sharing or Maquiladora operations brought an injection of new jobs, new payrolls, not from only the businesses in the U.S. Border cities, but form the bew Maquiladora/Twin Plant payrolls, about one-third to one-half have been estimated to have been regularly spent in stores on the U.S. side of the border.

In addition to the new money being injected into Laredo's economy through the payrolls of Maquiladora/Twin Plant employees in the United States and Mexico; it also resulted in a stimulus to the economy in the U.S. border cities with the construction of new homes, new cars, new tax revenues for governmental entities, and the increase in the household necessities which are purchased in the United States.

A measurement of the economic impact in Laredo has shown the Maquiladora or Twin Plant operations to have a highly favorable net result; increasing sales and dollar volume, and salaries.

I am foregoing the recitation of a lot of statistical information which I am sure you will receive in abundance.

What I would like you to see, Mr. Chairman and Committee members, is that the Maquiladora or Twin Plant program has been successful on the border because it brought hope to a lot of U.S. Citizens.

It provides new jobs in existing industries and businesses in Laredo. An excellent example of this is the automobile parts business. Hundreds of dollars in new tires and parts are bought every month for cars and trucks belonging to persons or businesses that supply parts or services to the Maquiladora or Twin Plants in Nuevo Laredo.

Another example of the industry or business which are sustained by the presence of Maquiladoras is the neighborhood grocery. In other cities across the United States, the neighborhood market has become nothing more than a fond memory. In Laredo, the infusion of payrolls in the neighborhoods has resulted in the ability of the neighborhood grocery to remain a viable part of the community and provide employment in jobs that otherwise would be non-existent.

While I have directed my remarks to a facet of the Maquiladora which I doubt is seen too often, I would like to direct your attention to some information relating to the direct linkage between the Maquiladora or the Twin Plant operations in Nuevo Laredo and Laredo impact the border economies favorably. In many communities, including Laredo, the Maquiladora support 10 to 15 percent of the communities' total labor force.

In Laredo, there are now six businesses which 584 employees that are the direct result of Maquiladora operations. Putting the Maquiladora or Twin Plant operations in even sharper focus, because of the Twin Plants in Laredo, of the firms surveyed, 45.3 percent of the support industry employment is in the Middle Atlantic states; 21.7 percent from the West South Central States.

These jobs are directly tied to Laredo, and were it not for Laredo's Twin Plant operations, these jobs would be nonexistent.

There are advantages from the Twin Plants being in Laredo and Nuevo Laredo; the Delredo Plant in Nuevo Laredo places the investment per employee in training and orientation, and in the building and equipment in excess of $80,000 per employee.

During entire calendar year the Delredo plant in Nuevo Laredo will add an estimated 5.2 million dollars to the economies of Laredo and Nuevo Laredo, with a total approximating 3.5 million dollars being spent in Laredo.

Mr. Chairman, Members of the Committee, I can assure you Laredo has been affirmatively impacted by the Maquiladora operation; and its citizens enjoy a better life because of the contribution of the Maquiladora or Twin Plants to the overall improvements in Laredo's economy.

However, it is not only Laredo that benefits but there are machinists, truck drivers, warehousemen and packers from across the United States that take paychecks home to their families because of the jobs made possible by the Maquiladora industries.

Along the vast stretch of the U.S.-Mexico border are many United States citizens that are working because of the Maquiladora clothed in hope for better things and a better way of life which every American strives for. Emasculate the Maquiladora - Twin Plant - send these industries to Taiwan, Korea, Singapore or some other Pacific Rim nation - and I assure you Mr. Chairman, you have killed the hope of a Merry Christmas and Happy New Year for many Americans.

Xerox Corporation
800 Phillips Road, Building 0205-99P
Webster, NY 14580

December 2, 1987

Mr. Robert J. Leonard
Chief Counsel, Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, DC 20515

Re: Request for Written Comments by the Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade, Committee on Ways and Means,
Dated October 22, 1987, Related to H. R. 3211 - a Classification Bill
Which Would Repeal Item 807.00 of the Tariff Schedules of the United States

Dear Mr. Leonard:

Xerox Corporation, a multinational company in the business products and systems industry, submits the following in response the above referenced request for comment. Those business products and systems activities encompass developing, manufacturing, marketing and servicing a complete range of document processing products and systems designed to make offices more productive. Xerox products are marketed in over 130 countries by a direct sales force and by a network of dealers and distributors. We write in opposition to H.R. 3211.

Xerox ownership of foreign facilities

Major manufacturing and service facilities of Xerox and its affiliates are located in the United States, Canada, Mexico, Brasil, England, Holland, France, Spain, and Japan; smaller units are located in several other Asian countries in order to meet the requirements of their governments. Affiliated companies include Rank Xerox Ltd. and Fuji Xerox Co. as well as several whose area of operation is single country oriented. Xerox is therefore sensitive to and significantly influenced by the trade policies of the major industrial nations in the world, particularly as they impact flexibility and variety of choice.

Cost and related factors applicable to site selection

Efficient material practices frequently result in single site sourcing of components in support of the world-wide production activities for an individual Xerox product. Manufacturing operations for a product that will be marketed on a world-wide basis may be carried out at one facility, or at multiple facilities. Similarly, field spare and/or supply operations may be located at one or more locations on a product line basis.

As is true of other multinational companies with world-wide capabilities many factors go into sourcing, manufacturing or supply operation site selection decisions reached by Xerox. They fall into the generic categories of cost, quality and delivery which themselves are the essential elements that affect a company's competitiveness; its ability to participate in a marketplace where delivered value is the ultimate determinant of success. It is obvious that the policies of countries to which the output of those facilities may be sent impact the viability of the products they export.

Other industrialized countries which allow the return of their goods free of duty, and they are many, would gain an advantage over U.S. sites when selection decisions were being made by multinational firms should item 807.00 provisions not be available. Given the cost advantage to a foreign facility, of the duty free return of its goods, a possible consequence could be that the non-U.S. facility would be in a better cost position to market its products in the United States than would a U.S. facility.

The low cost labor specter

Much emphasis has been placed on the use of this provision by labor intensive industries. While the particulars those industries must be considered they are not alone in the utilization of this opportunity. The Xerox experience can only be characterized as a high-technology application of significant consequence.

Those who object to item 807.00 make much of "low cost foreign labor". In that regard the Mexican maquiladora program is the subject of much discussion. A Xerox Mexican plant, located in the interior city of Aquascalientes, has a work force of approximately 850 persons, the great majority of whom are Mexican nationals. The plant cost of production is

near 50 million $US. Though the plant does not participate in the Mexican maquiladora program it does, in fact, import goods from and export products to the United States. In addition it ships to the Mexican and Latin American markets among other destinations. The same world-wide sources, including Mexican sources, supply the plant on a cost, quality and delivery basis as they would any other Xerox manufacturing location. With regard to this plant both the United States and Mexico benefit from the operation of item 807.00. There can be no argument regarding the positive benefits provided to the Mexican economy by plants of this type; they in no way exploit the citizens of Mexico; neither are they the source of cheap products for sale in higher labor cost countries; they are viable operations competing for finished goods sales in world markets.

Xerox operations, both for manufacturing and marketing purposes, experience a much greater volume of U.S. goods being returned from countries other than Mexico. Canada, European Economic Community and Far East countries in particular are active in this regard. Item 807.00 benefits make Xerox products more competitive in the U.S. and elsewhere *vis-a-vis* products manufactured in other countries or products manufactured in the U. S. of foreign parts and assemblies. These provisions provide a tilt in the right direction in the marketing of Xerox products. They also assist the original sale of those U.S. goods to the foreign location because the duty free return is a known given.

Non-cost factors of site selection

But there are other important site selection factors that must be given consideration; they are the requirements of governments related to the importation and marketing of a product. Those requirements, some of which may be negotiated and others which are mandated, include a number of measurements which indicate the extent to which a multinational firm is contributing to the economy of the host country, such as:

Balance of trade - value of exports must be at least equal to the value of imports

Balance of payments - value of all cash movement in must be at least equal to all cash movement out

Value added - total cost of local labor and material must be at least equal to the cost of goods imported

Manpower guarantees - labor level must be met

National integration - by product sold, must contain a minimum local percentage of the cost of production

Percentage of export - minimum percentage of production must be exported, generally by product

Local ownership - affiliate equity structure must contain a minimum percentage of local ownership

Technology investment - production base must include specified technology

In responding to requirements of these kinds it is evident that a United States firm must conduct economic activity in foreign countries, that it might prefer to do in the U.S., if it wishes to sell its products in the foreign country. The dilemma then follows that if it decides to conduct all its business at home it must give up foreign markets; if by participating in foreign markets it must produce goods in those markets it is then subjected to tariff provisions related to goods being imported into the U.S., including U.S. goods being returned. U. S. interests, therefore, are enhanced when there is no duty disadvantage to exporting goods for further processing and subsequent return to the U. S., when sales of those or other U.S. products in foreign countries require some measure of "value added" to take place in those countries. It is problematical that the U. S. firm's best interests, or U. S. interests in general, would be best served by "staying at home"; indeed, the whole rationale of free trade is based on the proposition that the international movement of material and products benefits all who participate in the activity.

Relative importance of duty savings

Most of life's influences are relatively small when considered individually That situation is just as true when related to business conditions as it is to personal circumstances. Some suggest that the downward trend of duty rates has made item 807.00 unimportant and that therefore it can be done away with. Those who utilize item 807.00 do not think so. To the contrary, they point out it is the cumulative burden, the proverbial straw, that sparks decisions affecting the course of events. In matters where others impose conditions they are often seen by them to be of little consequence to the affected; that case is often stated

by those who believe that their circumstances would be improved if a business is required to shoulder a perceived small burden; "they can afford it, it won't hurt them to give up a little" is the argument. Unfortunately, the numbers who would make that case are legion. Given free rein the sum of those "littles" can persuade a business to leave a locale, or that more foreign production, rather than less, is the only way to market survival.

The benefit accorded by item 807.00 is of that kind. If it had any jobs impact at all the loss of the duty free return provision for U.S. produced goods would more likely cause a greater shift to foreign production than to bring jobs back to the United States. The consequence would be the removal of economic benefits applicable to the original U.S. producing location; at best the incentive of returning U.S. goods rather than those of foreign production would be removed; at worst production would all be transferred to a foreign country.

The significance of U.S. content of foreign produced goods is illustrated by the origin of parts going into the products manufactured in one foreign Xerox plant. Of the output of that plant which is shipped to the United States 34% of the material cost is from this country. The U.S. content of finished product destined to the United States would have an additional significant duty burden, compared to foreign content, should its U.S. content not have a duty free status; it would give up a competitive advantage should it not be allowed to return to this country duty free. Of the same plant's output shipped to other countries, or for the plant's home market, 42% is of U.S. origin. U.S. manufacture is best served, and U.S. jobs are best protected, when U.S. goods are able to compete in world markets without nonproductive tariff barriers. For reasons described above, having to do with the requirements of value added in foreign markets in order to sell U.S made products in those markets, the repeal of item 807.00 would not cause additional production to take place in this country; more likely it would cause some of the U.S. production which presently returns to this country duty free to be produced elsewhere.

Economic activity related to U.S. goods being exported for further processing and ultimate return includes the creation of transportation, customhouse brokerage and U.S. Customs Service jobs in addition to those related to their manufacture in the United States.

In closing we point out that Xerox Corporation, like other United States firms in many industries, must continually be alert to changes which will affect its competitive relationship with foreign produced products. The business products and systems industry, also known as the reprographic industry, has had its share of attack by foreign manufacturers, particularly those from Japan. Though having lost a considerable portion of the market in the last decade Xerox has staved them off, and has increased market share in the recent past by paying attention to anything and everything affecting our competitive position. The subject tariff item is important to that effort and we would be disadvantaged should it be repealed. We hope that the Subcommittee on Trade, in giving thoughtful consideration to H.R. 3211, will reach the conclusion that this proposed legislation would work more harm than good should it be adopted and that it should not be reported out of committee.

We appreciate this opportunity to comment and the consideration given it.

Very truly yours,

Xerox Corporation

William R. Wilson
Manager, Customs Operations
Centralized Logistics Organization

H.R. 3271

To suspend for a 3-year period the duty on thiothiamine hydrochloride.
No statements submitted.

H.R. 3306

To extend the temporary suspension of duty on a certain chemical.
No statements submitted.

H.R. 3426

To temporarily suspend the duty on N-methyl aniline and m-chloro aniline.
No statements submitted.

H.R. 3447

To suspend for a 2-year period the duty on positive displacement reciprocating machines, parts for machines of that kind, and other related articles.
No statements submitted.

H.R. 3475

To suspend until January 1, 1991, the duty on acetophenone.
No statements submitted.

FOR IMMEDIATE RELEASE
FRIDAY, DECEMBER 18, 1987

SUBCOMMITTEE ON TRADE #14
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES REQUEST FOR WRITTEN COMMENTS ON CERTAIN TARIFF AND TRADE BILLS

The Honorable Sam M. Gibbons (D., Fla.,), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade is requesting written testimony for the record from all interested parties on the miscellaneous tariff and trade bills listed below.

A determination regarding further scheduling of public hearings or other Subcommittee action on any of these bills will not be made until after the close of this public comment period.

The tariff and trade bills on which written testimony will be received are:

Duty Suspension Bills

H.R. 3513 (Mr. Ford of Tennessee, Mr. Duncan, Mr. Matsui, and Mr. Quillen): To suspend until January 1, 1991, the duty on N,N'-Bis(2,3-dihydroxpropyl)-5-(N-(2,3-dihydroxpropyl)-a etamido)-2,4,6- triiodoisophthalamide.

H.R. 3522 (Mr. Crane and Mr. Porter): To extend duty-free treatment to railway car bolsters and frames.

H.R. 3527 (Mr. Smith of Florida): To suspend temporarily the duty on calcium carbaspirin.

H.R. 3538 (Mr. Levine of California): To suspend temporarily the duty on certain electronic connector contact parts.

H.R. 3626 (Mr. Bilbray and Mrs. Vucanovich): To provide duty-free treatment for three-dimensional cameras.

H.R. 3637 (Mr. Pease): To suspend temporarily the duty on certain imported fluorspar.

Classification Bill

H.R. 3645 (Mr. Wyden): To provide relief to Columbia Sportswear Company with respect to the tariff classification of certain wearing apparel, and for other purposes.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments should submit six (6) copies by the close of business, Friday, February 5, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

H.R. 3513

To suspend until January 1, 1991, the duty on N,N'-Bis(2,3-dihydroxpropyl)-5-[N-(2,3-dihydroxypropyl) acetamido]-2,4,6-triiodoisophthalamide.

Commentator: Mallinckrodt, Inc.
Legislation: H.R. 3513
Date: February 4, 1988

Mallinckrodt, Inc., a U.S manufacturer and distributor of medical products for the U.S. health care market (hereinafter "Mallinckrodt"), supports and recommends the passage of H.R. 3513 which would allow for suspension of tariff duties on N,N'-Bis(2,3 dihydroxpropyl)- 5[N-(2,3-dihydroxypropyl)-acetamido]-2,4,6-triiodoisophthalamide, known as IOHEXOL.

Mallinckrodt respectfully requests the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, amend H.R. 3513 to include suspension of tariff duties in the importation of N-(2-hydroxyethyl)-2,4,6-triiodo-5[2(2,4,6-triido-3-(N-methylacetamido)-5-(methylcarbamoyl) benzamido acetamido]-isophthalamic acid, known as IOXAGLATE an essential chemical compound, not available in the U.S., which Mallinckrodt imports for use in the manufacture of Mallinckrodt's contrast media agent, HEXABRIX.

Mallinckrodt competes with its Hexabrix product in the in vivo diagnostic, low osmolality, contrast media market. Sterling Drugs, Inc. ("Sterling") is a U.S. manufacturer of OMNIPAQUE, a low osmolality contrast media agent which includes the chemical compound "IOHEXOL". Sterling is the U.S. market leader of low osmolality contrast media.

> "Sterling already has a leading position in the in vivo diagnostic market via its Omnipaque contrast agent for use with x-ray and CT imaging. In a recent presentation to financial analysts, Sterling Executive Vice President Gary Penisten said the firm expects Omnipaque to generate over $100 mil. in sales this year. The contrast agent is currently selling at 'about $120 mil. annual[ized],' Peniston said. 'I would guess it will continue to grow dramatically from there. I think it has grown 90% so far this year!' Sterling estimates it has 46% of the nonionic segment of the market ..."[1]

Suspension of duty on Iohexol, by passage of H.R. 3513, would reduce Sterling's product cost thereby giving Sterling an unfair advantage over Sterling's competitors in this market, which must pay duty. With Sterling already having a dominant market position in the U.S., suspension of duties on Iohexol could, and in all likelihood will, result in increasing Sterling's market share and dominance in the contrast media market. By granting a suspension of duties for Ioxaglate, an equitable product cost position with respect to tariff duties would be maintained between Mallinckrodt and Sterling.

Background

Iodinated contrast media are used in a variety of diagnostic procedures in radiology and cardiology departments (approximately 12 million procedures annually). Most commonly, they are injected into the venous or arterial circulation and distributed to the area of interest within the patient. Radiographic techniques are then used to obtain and record the images for subsequent evaluation.

[1] Medical Devices, Diagnostics & Instrumentation Reports ("The Gray Sheet") V.13, No.17, November 23, 1987, pgs. 4,5.

Traditionally, such injections can be associated with a wide variety of patient side effects. These range in severity from mild, nuisance-type reactions (pain, burning sensation, nausea, etc.) to severe, life-threatening episodes (breathing difficulties, changes in blood pressure, heart rhythm and rate changes, and other cardiovascular or hypersensitivity reactions). Clinical data suggest the incidence of fatal reactions to fall in the range of one death per each 10,000 to 100,000 injections.

Recent Developments

In an attempt to improve on this performance, significant research has been directed toward the identification and development of compounds capable of providing appropriate diagnostic efficacy, while reducing the frequency and/or severity of side effects associated with their use. Due to the suspected involvement of "hyper-osmolality" of conventional agents in many of these reactions, efforts were concentrated on reducing the inherent "osmolality" of these compounds.

One way such improvements may be obtained is by creating a molecule which does not "ionize" (dissociate into anion and cation components). These agents deliver equivalent iodine with only half the "conventional" osmotic load. Products falling into this category are commonly referred to as "nonionics. Another way to achieve this goal is by creating a compound which delivers twice the iodine per molecule (monoacid dimer). Such compounds achieve a slightly greater reduction in osmolality than their nonionic counterparts, while retaining the inherent stability and solubility advantages of their "ionic" structure.

Current Environment

As a class, whether ionic or nonionic in structure, these "low osmolality" agents achieve significant advantages over their "conventional" predecessors in patient tolerance. Currently in the United States, the available agents are all licensed from their European owners to U.S.-based distributors. Substantial front-end costs have been incurred by these U.S. licensees in making such benefits available in the U.S. medical marketplace.

Laboratory and clinical testing to establish (under FDA scrutiny) the safety and efficacy of such products begins years prior to approval for sale, with supplemental and follow-up studies continuing for many years post-launch. In addition to license fees and royalties, the basic bulk drug (raw materials) must be purchased from the foreign licensors at the best-negotiated price. Currently an import duty must be paid on such purchases, adding further cost to the financially burdened medical industry.

This is currently the situation with regard to Mallinckrodt's import of our low osmolality contrast agent, Hexabrix, which is not available in the U.S. Purchases of bulk drug, Ioxaglate, are made from its owner and licensor in Paris, France, Guerbet, S.A. The imposition of this import duty artificially inflates our existing cost structure, and places a drain on those resources available to research, develop, produce and support potential new products necessary to meet evolving needs of the medical industry.

Conclusion

Mallinckrodt currently offers a low osmolality contrast agent, Hexabrix, which, like its "nonionic" low osmolality counterpart, Omnipaque, made from Iohexol--the target of this legislation, offers significant advantages in patient tolerance over conventional (high osmolality) agents previously available. Consistent with the spirit of this pending legislation, we respectfully request that import duties on our purchases of bulk raw materials (Ioxaglate) from Guerbet, S.A. in France be waived or eliminated as proposed for Iohexol in H.R. 3513. This will make available resources which can be put to better use within the medical industry through the development of new products and improved patient care.

H.R. 3522

To extend duty-free treatment to railway car bolsters and frames.

COMMENTS OF THE AMERICAN RAILWAY
CAR INSTITUTE IN OPPOSITION TO
H.R. 3522

January 11, 1988

On behalf of the American Railway Car Institute (ARCI), L. Clark Wood, Chairman, we submit these comments in opposition to H.R. 3522, a bill to extend duty-free tariff treatment to railway car bolsters and frames. This legislation was introduced by Congressman Philip Crane on October 21, 1987.

Passage of H.R. 3522 would:

- provide an unwarranted benefit to nations such as Japan, Canada and South Africa without reciprocity
- provide a duty-free incentive to import flat car parts to be assembled in the United States and thereby avoid 18% tariffs on completed railcars
- prevent accurate import monitoring important to the domestic industry
- exacerbate foreign competition problems already faced by the domestic industry
- result in a revenue loss of over 5 cents on every dollar of imports of these products from developed countries.

Foreign manufacturers should not be granted the added benefits proposed in H.R. 3522. Imports from developing countries under tariff category 690.35, TSUS, are already eligible for duty free treatment under the Generalized System of Preferences. However, H.R. 3522 will extend duty free treatment to developed countries such as Canada, Japan, and South Africa, the only countries that have exported frames and bolsters to the United States thus far in 1987.

No reciprocal concessions for U.S. exports are being obtained from the beneficiary countries. Enactment of H.R. 3522 would prevent future trade negotiations for such concessions and diminish U.S. bargaining power. Reciprocal benefit to U.S. exports should always be the corner stone for U.S. trade policy. Particularly in light of the present condition of the domestic industry, there is no basis to unilaterally extend treatment to manufacturers in developed countries.

The domestic industry is already suffering from the combined effects of a contracting domestic market and import competition. In 1979, over 90,000 rail cars were built in the United States. During the last five years, an average of only 12,000 cars per year have been built in the U.S. Since 1979, U.S. production capacity has been reduced by over 50%. Even with this reduction capacity utilization stands at less than 25%.

The present duty rate on items classified under item 690.35, TSUS, which includes bolsters and frames, is 5.5%. In contrast, a completed flat car is subject to a rate of 18%. Foreign manufacturers can realize a substantial duty savings by exporting the components of a flat car and assembling them in the United States. H.R. 3522 would make this an even more attractive alternative to foreign manufacturers by eliminating the duty altogether on these major components of rail cars. If this is done, U.S. manufacturers will inevitably suffer additional lost sales of completed rail cars.

"Frames" include the flat beds of railroad cars to which are attached trucks and wheels. They provide a level platform on which to carry cargo such as containers. "Bolsters" (similar to cushions) are smaller platforms which, in varying configurations, are used between the trucks (the swiveling carriage containing the axles) and the flat bed and also as a support between the flat bed of the car and containers. When these articles are imported, and components such as trucks and wheels attached, an operational flat car results.

H.R. 3522 will also inhibit import monitoring by the U.S. Customs Service and by the domestic industry. Presently, bolsters and frames are classified separately in the Tariff Schedules of the United States (Annotated) as 690.3510 and 690.3540, respectively. Separate classification enables the U.S. Government and the domestic industry to accurately assess the individual volume and value of these rail car components.

H.R. 3522 will replace 690.3510 and 690.3540 with a single, duty free category of 690.36. This will prevent verification of the volume and value of imports of bolsters and side frames. The ability to separately monitor these articles is invaluable in determining the quantity of flat cars which may be assembled in the United States from foreign components.

The new category, 690.36, will be duty-free for all Column 1 imports, regardless of their country of origin. The present duty rate for imports from developed countries is 5.5% ad valorem. Passage of H.R. 3522 will result in a loss of revenues of over 5 cents per dollar of value on imports of bolsters and frames. 1987 imports to date are entirely from developed countries. In light of the United States' present budget deficits, this is not an appropriate time to support revenue reducing measures such as H.R. 3522.

The ARCI urges this Congress and the Subcommittee to reject H.R. 3522.

Statement

of the

Railway Progress Institute

to the

Subcommittee on Trade
Committee on Ways & Means
U.S. House of Representatives

on H.R. 3522

* * * * *

February 5, 1988

The Railway Progress Institute, the international association of rail and rail rapid transit equipment suppliers, strongly opposes H.R. 3522. Our association represents the companies that manufacture railway car bolsters and side frames as well as companies that use them in the manufacture of railway cars.

H.R. 3522 would extend duty-free treatment to railway car bolsters and frames. It is hard for our industry to understand why duty-free treatment should be extended to the import of a product for which ample U.S. manufacturing capacity is available and unused.

The manufacturers of railway car bolsters and side frames, indeed the entire railway supply industry, is going through a business depression which began in 1981. In 1987 we began to see a slight recovery, and H.R. 3522 would certainly put a damper on that.

To put things in proper perspective, in 1978 and 1979, the peak years of production, there were eight U.S. companies producing railway car bolsters and side frames. Today there are but three remaining. These three have a capacity to produce 78,000 car sets of these parts but are working at only 17 percent of that capacity. Employment peaked at 8,900 employees in 1978 and today stands at 2,200.

As was mentioned earlier, a slight improvement in business was reported in 1987. Predictions for the future indicate a slow recovery to demand levels, perhaps half of what they were at their peak. Little public good can be served by the Congress extending duty-free treatment to foreign competitors of a U.S. industry working at less than 20 percent capacity with several thousand unemployed workers and little prospect for a dramatic upturn in business.

It should be noted that not only the domestic producers of these railway car parts but also the users, the railway freight car builders, oppose this legislation as evidenced by the comments filed with the Subcommittee by the American Railway Car Institute.

Again, the Railway Progress Institute strongly opposes this legislation and urges that no further action be taken by the Subcommittee on H.R. 3522.

Thank you for your consideration.

\# \# \#

SCHAGRIN ASSOCIATES
1112 SIXTEENTH STREET, N.W.
SUITE 200
WASHINGTON, D.C. 20036
(202) 223-1700

February 5, 1988

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth Building
Washington, D.C. 20515

Re: Comments on H.R. 3522

Dear Mr. Chairman:

These comments are submitted on behalf of National Castings, Inc. in opposition to H.R. 3522, a bill to extend duty-free treatment to railway car bolsters and frames.

National Castings Incorporated (NCI) is a major supplier of castings to the railroad, industrial and mining industries. The company consists of three very modern foundries. Cicero, Illinois is home to one of the world's largest steel foundries. NCI's facility there encompasses 720,000 square feet. NCI also operates a 292,000 sq.ft. facility in Melrose Park, Illinois and a 256,000 sq.ft. small-castings foundry in Toledo, Ohio.

NCI has the capacity to produce 60,000 tons of the products covered by H.R. 3522 at the Cicero facility. The company is not making these products today because the railway supply market was decimated from the overbuilding of railcars. In 1981, 90,000 railcars were made in the United States. Production of railcars fell to 5,000 in 1982. The market today is not a viable one for NCI due to an enormous inventory of built railcars.

Before 1982, there were eight United States producers of railway car bolsters and frames. Today, NCI is one of three remaining producers of these products. While NCI is not currently making these products, the other two companies are still engaged in production.

At one time, NCI employed 2,000 workers at the Cicero foundry. Employment has been reduced to just 85 workers at Cicero to maintain the small portion of the facility that is operating. NCI is operating company-wide at 41% capacity utilization with two thirds of its employees on layoff.

Duty-free treatment is normally granted by Congress when there are no domestic manufacturers making the product. This is certainly not the case with railway car bolsters and frames. As railcar inventory decreases and the market picks up, NCI looks forward to competing in this market again. While imports are not currently a big factor in a down market, it would be unfortunate and unfair for NCI and its domestic competitors to have to compete with imports with no duty.

For these reasons, National Castings, Incorporated opposes H.R. 3522 to extend duty free treatment to railway car bolsters and frames.

Sincerely,

Roger B. Schagrin
Counsel for National Castings, Inc.

H.R. 3527

To suspend temporarily the duty on calcium carbaspirin.

DOW CHEMICAL U.S.A.

2020 WILLARD H. DOW CENTER
February 4, 1988

WILLARD H. DOW CENTER
MIDLAND, MICHIGAN 48674

Robert J. Leonard
Chief Counsel
Commission on Ways & Means
U. S. House of Representatives
Room 11 Longworth House Office Bldg.
Washington, D.C. 20515

CALCIUM CARBASPIRIN IMPORT DUTY

Dear Sir:

The Dow Chemical Company, as a producer of acetylsalicylic acid (aspirin) domestically, wishes to express dissatisfaction with the proposed duty-free status to be afforded calcium carbaspirin. Our industry has been undergoing several years of negative profit due to illegally dumped imports and the resultant low pricing. Compound this suppressed pricing with escalating phenol and acetic anhydride raw material prices and our opportunity for reasonable profits become even bleaker.

Therefore, it seems unappropriate for the U.S. Government to allow a competitive import analgestic product into the United States duty free. This product should get no special dispensation at the expense of our domestic industry.

Sincerely,

Dennis R. Campbell
Marketing Manager
Chemicals and Metals

rbg

cc: Lon Offenbacher, U.S. House of Representatives, Washington, D.C.

Quality Performance Means More At Dow

[Identical letter also submitted by Robert W. Simmons, Product Marketing Manager, Chemicals and Metals, Dow Chemical U.S.A.]

H.R. 3538

To suspend temporarily the duty on certain electronic connector contact parts.

STATEMENT OF TRI-STAR ELECTRONICS IN SUPPORT OF H.R. 3538

This statement is submitted on behalf of our client, Tri-Star Electronics, of Venice, California, in support of H.R. 3538, which is a bill to suspend temporarily the duty on certain electronic connector contact parts.

Tri-Star Electronics strongly supports the enactment of H.R. 3538. Passage of this bill is in the best interests of the United States, in that it will provide to U.S. companies the component parts they need for the manufacture of high technology products which are essential for use in aerospace and military applications. Passage of this bill will also have no negative impact on any U.S. industry.

Tri-Star Electronics is a company which has been in business for the past ten years and currently employs 150 people in Venice, California. The company, among its other operations, imports electronic connector contact parts from Switzerland and France. Tri-Star imports approximately $3-4 million per year of these electronic connector parts. The company imports these goods as unfinished machine parts, then finishes the machine parts and sells them to contractors of the Department of Defense who are involved in the military and aerospace industries. Tri-Star's customers include Hughes, Rockwell and TRW.

Currently, there are no manufacturers in the United States who can supply these type of electronic connector contact parts which the company imports from Switzerland and France. The subject electronic connector contact parts are small, 1/2 inch or less in diameter, and manufacturers in Switzerland and

neighboring France comprise the majority of the worldwide industry which manufacture these type of high-quality specialized products. These type of electronic connector parts are not produced in the United States. Basically, the U.S. industry manufactures larger electrical connector parts which find specialized applications in other industries such as the automotive industry.

Since Tri-Star uses these electronic connector contact parts for use in the military and aerospace industry, these parts have to be manufactured to an extremely high quality. Tri-Star is on the qualified products list as a Department of Defense supplier. Tri-Star electronics and other specialized manufacturers needs to import these goods for the products it manufactures and sells to companies in the military and aerospace industry. For your information, competitors of Tri-Star Electronics, companies such as ITT Canon also import their electronic connector contact parts from European manufacturers.

In sum, the duty suspension is needed to permit Tri-Star Electronics and other suppliers of the U.S. military and aerospace industry to continue to provide essential goods to contractors of the Department of Defense at the lowest possible cost. As such, passage of this bill is in the national security interests of the United States. Finally, and most significantly, since no United States manufacturer either currently manufactures or has plans to begin manufacture of these products, this duty suspension will not have any negative impact upon a U.S. industry. Our client and its competitors have no alternative but to buy these goods overseas. Suspension of the duty on these parts will thus lower the costs of manufacture of goods ultimately purchased by the Department of Defense for military and aerospace applications.

Respectfully submitted,

Steven P. Kersner
Attorney for Tri-Star Electronics

H.R. 3626

To provide duty-free treatment for three-dimensional cameras.

February 3, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, D. C. 20510

Dear Mr. Leonard:

I am writing in support of H.R. 3626, a bill that will provide duty-free treatment for 3-Dimensional cameras. This bill was introduced by Nevada Congressman James Bilbray on November 10, 1987.

Although The Nissei Corporation appears to be the primary beneficiary of this legislation, many other companies that supply products or services used in this new business will also benefit.

My company supplies products to Nissei Research Corporation which is engaged in both research and manufacturing. Their success has a direct economic effect on our company.

I am sure that others from The Nissei Corporation and Nissei Research Corporation have made you aware of the reasons for the duty-free treatment. I would like to give my support to this bill. The point I would like to make is that the success of Nissei will affect many other businesses and jobs.

Because the quadra lens 3-dimension camera does not compete with American companies or products, I believe this to be a fair request and urge your support for this bill.

Cordially yours,

Randy Prince

Randy Prince
American Hose & Hardware

Identical letters were also received from the following:

Atl Investments, Inc., Norcross, Ga., Michael D. McGee
Bank South, N.A., Norcross, Ga., Anne M. Granville
Bell Industries, Norcross, Ga., Mark Davison
Bell Industries, Norcross, Ga., Lisa Mink
Cox Machine Company, Indiana Trail, N.C., Doug Cox
Datatech Precision Machining, Inc., Atlanta, Ga., Gary Snavely
DeKalb County Commissioner, Decatur, Ga., Hon. Robert J. Morris
Gwinnett County Commissioner, Lawrenceville, Ga., Hon. Don Loggins
Hamilton Dorsey Alston Company, Atlanta, Ga., R. Anthony Rives
John Stephens Company, Inc., Marietta, Ga., Brian Stephens
Johnson Service Group, Atlanta, Ga., Barbara Warner Miles
Lee Line, Ft. Wayne, Ind., Donald Beitz
Martin & Associates, Atlanta, Ga., Robert M. Rosner
Ned D. Burris Photography, Atlanta, Ga., Ned D. Burris
Newark Electronics, Norcross, Ga., Doria Kenyada
Re/Max North Atlanta, Inc., Atlanta, Ga., Lee Finch
Re/Max North Atlanta, Inc., Dunmoody, Ga., Norma Steimer
Re/Max North Atlanta, Inc., Atlanta, Ga., Gerry Vonder Meulen
Stephen & Associates, Inc., Tucker, Ga., Stephen Selembo
Swift - Atlanta, Inc., Suwanee, Ga., Don Moranas
Tad Technical Services, Atlanta, Ga., Bob Foley
Technoskill, Inc., Norcross, Ga., Timothy R. Bierenfeld
Tipp Machine & Tool, Inc., Tipp City, Ohio, Paul Rising
Typing Plus, Roswell, Ga., Diane Longenecker
Volt Information Sciences, Inc., Technical Services Division, Atlanta, Ga., Christine A. Mulvey

January 29, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Mr. Leonard:

I am writing this letter in support of HR 3626, a bill that will provide duty-free treatment for 3-Dimensional cameras. I have been a resident of Henderson for 34 years, very active in the financial and Henderson community. The bill was introduced by Nevada Congressman Jim Bilbray and co-sponsored by Nevada Congresswoman Barbara Vucanovich.

This bill, if enacted, will greatly benefit The Nissei Corporation, and all of Nevada.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the camera will be sufficiently harmful to the growth of the new company. Even though the company imports the camera from Hong Kong, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price and the main revenues will be generated from photofinishing. Although the Research and Development Division of Nissei is not located in Nevada, the facility in Atlanta, Georgia is developing new high speed printers and other applications for 3-D technology which will benefit all of Nevada.

I believe that this bill will have a very favorable impact in Nevada where Nissei has provided much needed non-gaming jobs. Because the 3-D camera does not compete with any American-made cameras, we feel that the duty-free treatment will not adversely affect any other American company or industry. The company has already created 30 new jobs of which 15% are highly-skilled positions in Nevada.

The company expects to add an additional 200 jobs based on the photofinishing needs created as a result of the camera sales.

The additional jobs, plant expansions, etc., will all have positive effects throughout the community. We understand that starting a new business is very difficult and that this business, at this point, is very capital intensive in two key areas: performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's costs will be tremendously helpful.

Because of Nissei's current progress, the company was honored at the Governor's Annual Appreciation Luncheon under the category of new businesses.

I respectively urge that the House Ways and Means Committee support HR 3626.

Respectfully yours,

Selma F. Bartlett
601 Sierra
Henderson, NV 89015

First Interstate Bank
of Nevada, N.A.
President's Department
Box 11007
Reno, NV 89520-0010
702 784-3844

Kevin T. Day
Vice President
Corporate Affairs

February 1, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, D.C. 20510

Dear Mr. Leonard:

We are writing this letter in support of HR 3626, a bill that will provide duty-free treatment for 3-Dimensional cameras. The Bill was introduced by Nevada Congressman Jim Bilbray and co-sponsored by Nevada Congresswoman Barbara Vucanovich.

This bill, if enacted, will greatly benefit the Nissei Corporation, and all of Nevada.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the new camera will be sufficiently harmful to the growth of the new company. Even though the company imports the camera from Hong Kong, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price and the main revenues will be generated from photofinishing. Although the Research and Development Division of Nissei is not located in Nevada, the facility in Atlanta, Georgia is developing new high speed printers and other applications for 3-D technology which will benefit all of Nevada.

We believe that this bill will have a very favorable impact in Nevada where Nissei has provided much needed non-gaming jobs. Because the 3-D camera does not compete with any American-made cameras, we feel that the duty-free treatment will not adversely affect any other American company or industry. The company has already created 30 new jobs of which 15% are highly-skilled positions in Nevada.

The company expects to add an additional 200 jobs based on the photofinishing needs created as a result of the camera sales. The additional jobs, plant expansions, etc., will all have positive effects throughout the community. We understand that starting a new business is very difficult and that this business, at this point, is very capital intensive in two key areas: performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's costs will be tremendously helpful.

Because of Nissei's current progress, the company was honored at the Governor's Annual Appreciation Luncheon under the category of new businesses.

We respectively urge that the House Ways and Means Committee support HR 3626.

Respectfully yours,

Kevin Day

Kevin T. Day

CITY OF HENDERSON

CITY HALL 243 WATER STREET 702/565-2323
HENDERSON, NEVADA 89015

Gateway to Lake Mead Resorts

MAYOR:
Lorna Kesterson

COUNCILMEN:
Lorin L. Williams
Andy Hafen
Michael R. Harris
Carlton Lawrence

February 3, 1988

FEDERAL EXPRESS

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. HOUSE OF REPRESENTATIVES
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Mr. Leonard:

We are writing this letter in support of HR 3626, a bill that will provide duty-free treatment for 3-Dimensional cameras. The Bill was introduced by Nevada Congressman Jim Bilbray and cosponsored by Nevada Congresswoman Barbara Vucanovich.

This bill, if enacted, will greatly benefit the Nissei Corporation, and all of Nevada.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the camera will be sufficiently harmful to the growth of the new company. Even though the company imports the camera from Hong King, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price and the main revenues will be generated from photofinishing. Although the Research and Development Division of Nissei is not located in Nevada, the facility in Atlanta, Georgia is developing new high speed printers and other applications for 3-D technology which will benefit all of Nevada.

We believe that this bill will have a very favorable impact in Nevada where Nissei has provided much needed non-gaming jobs. Because the 3-D camera does not compete with any American-made cameras, we feel that the duty-free treatment will not adversely affect any other

American company or industry. The company has already created 30 new jobs of which 15% are high-skilled positions in Nevada.

The company expects to add an additional 200 jobs based on the photofinishing needs created as a result of the camera sales.

The additional jobs, plant expansions, etc., will all have positive effects throughout the community. We understand that starting a new business is very difficult and that this business, at this point, is very capital intensive in two key areas: performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's costs will be tremendously helpful.

Because of Nissei's current progress, the company was honored at the Governor's Annual Appreciation Luncheon under the category of new businesses.

We respectively urge that the House Ways and Means Committee support HR 3626.

Respectfully yours,

Lorna Kesterson

Lorna Kesterson,
Mayor of Henderson

100 EAST LAKE MEAD DRIVE, HENDERSON, NEVADA 89015
702 565-1467

February 3, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Mr. Leonard,

The Henderson Development Association, which is a division of the Henderson, Nevada Chamber of Commerce, had the opportunity in 1987 to work with and assist the Nissei Corporation in locating its 3-dimensional photography processing facility in Henderson, Nevada. We are very interested in their plans to develop and market a three-dimensional camera under the name "Nishika", which will be manufactured in Hong Kong. Because the Nishika 3-D camera is unique and will not compete directly or indirectly with any U.S. manufactured camera, we solicit the support of the House Ways and Means Committee for the passage of HR-3626, which would provide a duty-free status to three-dimensional (3-D) cameras manufactured outside the United States and thus aid Nissei in their Nishika camera program.

We are impressed with the aggressiveness of the Nissei Corporation and we are looking forward to their corporate growth here in Henderson, Nevada.

Respectfully,
HENDERSON DEVELOPMENT ASSOCIATION

Duane Laubach
President

THE STATE OF NEVADA
EXECUTIVE CHAMBER
Carson City, Nevada 89710

RICHARD H. BRYAN
Governor

TELEPHONE
(702) 885-5670

February 1, 1988

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Chairman Rostenkowski:

I am writing this letter to express my support for HR 3626, a bill that will provide duty-free treatment for imported 3-Dimensional cameras. The bill was introduced by Nevada Congressman Jim Bilbray and co-sponsored by Nevada Congresswoman Barbara Vucanovich.

This bill, if enacted, will benefit not only The Nissei Corporation, but also the State of Nevada and will make a positive contribution to the nation's competiveness in the area of technology development.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the camera will be significantly harmful to the growth of the new company. Even though the company imports the camera from Hong Kong, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price and the main revenues will be generated from photofinishing. The Research and Development Division of Nissei is not located in Nevada. That facility is in Atlanta, Georgia, and is developing new high speed printers and other applications for 3-D technology. Such research and development will lead to a larger market and thereby increase distribution and processing from Nevada. Because the 3-D camera does not compete with any American-made cameras -- Nissei controls the necessary patents and technology -- I feel that the duty-free treatment will not adversely affect any other American company or industry.

0-512--GOVER

I believe that this bill will have a very favorable impact in Nevada where Nissei already has provided very desirable non-tourism jobs. The company has already created 30 new jobs of which 15 percent are highly-skilled positions in Nevada. The company expects to add an additional 200 jobs based on the photofinishing needs created as a result of the camera sales. Because of Nissei's current progress to date, I honored the company at the Governor's Annual Industry Appreciation Luncheon under the category of new businesses.

The additional jobs and plan expansion will all have positive effects throughout the community. Starting a new business is very difficult and I understand that this business, at this point, is very capital intensive in two key areas: performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's costs will be tremendously helpful, while the impact on duties will not be significant.

I respectively urge that the House Ways and Means Committee support HR 3626.

Sincerely,

RICHARD H. BRYAN
Governor

BOB MILLER
Lieutenant Governor

STATE OF NEVADA

Telephone
Las Vegas (702) 486-4506

LIEUTENANT GOVERNOR
2501 E. Sahara Avenue
Las Vegas, Nevada 89158

February 3, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Mr. Leonard:

We are writing this letter in support of HR 3626, a bill that will provide duty-free treatment for 3-Dimensional cameras. The Bill was introduced by Nevada Congressman Jim Bilbray and co-sponsored by Nevada Congresswoman Barbara Vucanovich.

This bill, if enacted, will greatly benefit The Nissei Corporation, and all of Nevada.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the camera will be sufficiently harmful to the growth of the new company. Even though the company imports the camera from Hong Kong, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price and the main revenues will be generated from photofinishing. Although the Research and Development Division of Nissei is not located in Nevada, the facility in Atlanta, Georgia is developing new high speed printers and other applications for 3-D technology which will benefit all of Nevada.

We believe that this bill will have a very favorable impact in Nevada where Nissei has provided much needed non-gaming jobs. Because the 3-D camera does not compete with any American-made cameras, we feel that the duty-free treatment will not adversely affect any other American company or industry. The company has already created 30 new jobs of which 15% are highly-skilled positions in Nevada.

The company expects to add an additional 200 jobs based on the photofinishing needs created as a result of the camera sales.

The additional jobs, plant expansions, etc., will all have positive effects throughout the community. We understand that starting a new business is very difficult and that this business, at this point, is very capital intensive in two key areas: performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's cost will be tremendously helpful.

Because of Nissei's current progress, the company was honored at the Governor's Annual Appreciation Luncheon under the category of new businesses.

We respectively urge that the House Ways and Means Committee support HR 3626.

Respectfully yours,

Lieutenant Governor
Bob Miller

NEVADA DEVELOPMENT AUTHORITY
3900 PARADISE ROAD
Suite 155 • Las Vegas, Nevada 89109
Area Code (702) 791-0000
Toll-Free 1-800-634-6858
Telex: (702) 796-6483

January 27, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Dear Mr. Leonard:

I would like to express the support of Nevada Development Authority for HR 3626, which provides for duty-free treatment of 3-dimensional cameras. The bill was introduced by Nevada Congressman Jim Bilbray and co-sponsored by Nevada Congressman Barbara Vucanovich. If enacted, this bill will greatly benefit the Nissei Corporation as well as Nevada.

The Nissei Corporation plans to market a 3-D amateur camera imported from Hong Kong. The duty currently imposed on the camera is sufficient to be harmful to the growth of the new company. Even though the company imports the camera from Hong Kong, all marketing, distribution and photofinishing will be done in Nevada. The camera will be sold for a relatively low price with the main revenues generated from photofinishing.

It is felt the bill will have a very favorable impact in Nevada where Nissei has provided much needed non-gaming jobs. The company has already created 30 new jobs in Nevada, of which 15% are highly-skilled positions. Based on the photofinishing needs created as a result of the cameras sales, the company expects plant expansions and the addition of up to another 200 jobs. This will obviously create positive effects throughout the community. Because the 3-D camera does not compete with any American-made camera, we feel the duty-free treatment will not adversely affect any other domestic company or industry.

As a result of of Nissei's progress, the company was recently honored at the Governor's Annual Appreciation Luncheon for new business. Starting a new business can be very difficult and, at this point, Nissei's business is very capital intensive in two key areas - performing research and development on the new printers and creating a new market. Therefore, any effort to reduce the company's costs will be tremendously helpful. We respectfully urge that the House Ways and Means Committee support HR 3626.

Respectfully Yours,

Joe W. Brown
Chairman of the Board

THE NISSEI CORPORATION
3 SUNSET WAY, BUILDING B, HENDERSON, NV 89014
CUSTOMER SERVICE NO. (702) 451-7005

January 28, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

H.R. 3626

Dear Mr. Leonard:

This letter is submitted by Nissei Corporation, a Nevada corporation whose operations are located in Henderson, Nevada, in support of H.R. 3626, a bill to provide duty-free treatment for three-dimensional cameras introduced by Congressman Bilbray and Congresswoman Vucanovich.(1)

Nissei has exclusive rights to the patents and technology for the production of 3-D still cameras and the prints produced in those cameras. To the best of our knowledge and belief, Nissei is the only firm that currently produces or intends to produce 3-D cameras for importation and has the capability to process and print the film. H.R. 3626, if enacted, would enable Nissei Corporation to import certain three-dimensional (3-D) cameras into the United States duty-free. Under the Tariff Schedules of the United States (TSUS) (19 U.S.C. 1202), the 3-D cameras are currently classified under TSUS item 722.11, which covers ordinary 35mm fixed focus cameras. The current applicable duty is 4% ad valorem. This current duty could seriously impede the development of the 3-D camera market in the United States, and prevent the Henderson facility from reaching its full potential.

Nissei was established in November, 1985, as a Nevada corporation to purchase and obtain exclusive rights for 3-D camera technology, including the know-how for developing and processing 3-D photographs. Nissei will be the importer and distributor of 3-D cameras manufactured in Hong Kong, which will be marketed by Nissei under the name Nishika.

Nissei's existing facility in Henderson is the only site in the United States capable of developing 3-D prints. Nissei currently employs 30 persons who operate printers and other processing equipment dedicated to developing prints taken by Nimslo 3-D cameras which are no longer produced.

3-D Cameras and 3-D Prints

Nissei purchased the worldwide rights for the 3-D cameras from Nimslo Corporation, which spent 50 million dollars to develop and perfect the system. The 3-D technology is protected by 18 registered United States patents, with related patents registered in 15 other countries.

Nimslo ceased production of its 3-D cameras for the retail market in 1984. Since Nissei has the exclusive rights to this 3-D process, it will be the only company

producing a 3-D camera of this type for the amateur photographer in the United States. Earlier efforts to produce and market the cameras were unsuccessful because of the high ($200) price. Nissei, in contrast, intends to market a similar camera at below $100 retail as a "mass market" item; accordingly, the existing customs duty will necessarily increase the price of the camera, reducing the potential markets for both the cameras and film processing, and possibly preventing the success of the venture.

The Nishika 3-D camera is unique. It uses standard 35mm film and produces a three-deminsional photograph which can can be viewed without special lenses. The camera's patented Quadra Lens system is readily apparent to the user as the camera has four pre-focused lenses which take four simultaneous, separate shots to achieve optimum clarity and depth.

The photofinishing system to develop film from the 3-D camera is also unique. It utilizes a complex, computerized operation in which four separate images are merged into one on a durable lenticular surface. The computerized printing system optically slices each of the four negatives into strips less than one-thousandth of an inch wide. Each strip is then precisely aligned into one of the hundreds of microthin lenses which cover the special photographic paper. This lenticluar surface directs the proper photographic image to each eye, creating a single three-dimensional photograph. (The printers, which cost approximately $200,000 each, were designed and are being constructed by Nissei Research Corporation, an affiliated company of Nissei Corporation).

While the Nishika 3-D camera itself is an innovative and exciting instrument, the real "product" for Nissei is the 3-D print, not the camera itself. The imported camera is merely a means to an end for both its purchaser and Nissei. The processing and printing of 3-D prints will be both Nissei's principal source of revenue and, of course, the customer's principal rationale for purchasing the camera in the first place. And, while the camera itself is imported, with minor exceptions, the printing and processing are fully American. The printers were designed and are being manufactured in Atlanta, Georgia, and most of the chemicals and the processing materials are made in the United States by such companies as Kodak and 3M. Thus, the product, if successful will create far more jobs in the United States than abroad.

The Henderson Facility Operations

Beginning in 1988, Nissei will import Nishika 3-D cameras form Hong Kong. By this time, Nissei anticipates expansion of its Henderson facility to accommodate at least five more printers to handle the initial projected volume. (Nissei currently operates four printers.)

In its first full year of operation in 1988, Nissei is projecting that it will sell 100,00 to 200,000 cameras. Nissei anticipates annual sales of up to 400,000 cameras within two years. During 1988, Nissei envisions installing an additional five high-speed printers and employing upwards of 200 people to market cameras and develop the prints generated by the cameras. If Nissei succeeds in selling 100,000 cameras a year, it will employ at least 100 people at the Henderson facility.

Duty-Free Treatment for Nishika 3-D Cameras

Nissei is seeking exemption to the current U.S. duty of 4% on its unique Nishika 3-D cameras for the following reasons:

1. A duty of this magnitude will impact substantially on a start-up company like Nissei where either losses or a thin net profit margin in the range of 2-3% is commonplace. It is necessary to maximaze cash flow to build up the comapny's capital base in order to expand the company's operations in Henderson to meet anticipated demand.

2. The tariff schedules do not adequately reflect the unique nature of this camera. Because the TSUS does not keep up with new developments and technology, new classifications should be created for new products like the 3-D camera. In this respect, 3-D cameras are similar (or ought to be) to hand-held, fixed focus instant cameras, which enter the United States duty-free (2) when imported from Hong Kong.

3. There is no U.S. industry producing like or similar cameras. Therefore, Nissei would not injure any segment of the U.S. economy. In fact, the introduction of such a product would significantly benefit U.S. consumers.

Conclusion

For these reasons, Nissei respectfully urges the Committee to support, and Congress to enact, H.R. 3626.

Sincerely,

James D. Bainbridge
President

---

(1) A similar bill, S. 1866, has been introduced in the Senate by Senators Hecht & Reid.

(2) Under applicable provisions of GSP.

THE NISSEI CORPORATION
3 SUNSET WAY, BUILDING C, HENDERSON, NV 89015 (702) 456-9004

February 1, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

Re: HR 3626

Dear Mr. Leonard:

As employees of The Nissei Corporation, we are writing in support of HR 3626, a bill which when enacted will permit Nissei to import 3-D cameras duty-free from Hong Kong.

While we, as employees of Nissei, have no direct interest in the marketing of the Nissei "Nishika" 3-D camera per se, we have a strong interest in assuring that this marketing operation is a success, because our jobs, as well as the planned expansion of employment at the company, depends on the effective marketing of a large number of 3-D cameras at attractive prices to produce the film which will be processed and printed at the Nissei facility in Henderson, Nevada.

At the present time, there are only about thirty of us employed at the Henderson facility. At this facility, we process exposed film and produce 3-D prints for the owners of Nissei's predecessor, the Nimslo camera. However, because relatively few Nimslo cameras were sold, the volume of our operations is relatively small. The facility currently consists of a full range of film processing and printing equipment from the mixing of the necessary chemicals on. It is designed to permit very substantial expansion with room to increase the current four printers to more than nine printers with an anticipated increase in employment from about 30 to more than 100.

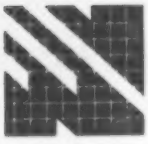
While we are aware that in the past many American workers have opposed imports in order to maintain their jobs, in our case the opposite is true; if the "Nishika" camera is to be a success, the cost must be kept down and its cost can be minimized only if the product is made abroad and imported at the lowest possible cost (e.g., duty-free). Thus, in our situation, increased imports of 3-D cameras, although modest in overall dollar volume, are essential to both the maintenance of our jobs and to the creation of new jobs in this facility. Our livelihood, and Nissei's cash flow, will be produced primarily through the processing and printing of film, not through the sale of cameras. Thus, despite the foreign origin of the cameras themselves, the Nissei operation is very much an American operation producing American jobs using primarily American origin chemicals, paper, and other photo-processing equipment.

While we are not experts in the subject, we are aware of no possible injury to the United States or to American citizens which would result from enactment of this legislation. To the best of our knowledge, there is no competing product made in the United States or any prospect of such product being made in the United States in the future. Moreover, while the volume of camera imports will hopefully be substantial from Nissei's point of view, perhaps as many as half a million a year when marketing is in full swing -- in total dollar volume and thus the total duties are insignificant in the overall U.S. trade context. Finally, we note that the product will be coming from Hong Kong, a country which is virtually unique among America's trading partners in that it imposes few, if any, tariff or non-tariff barriers to U.S. exports.

Under all of these circumstances, we respectfully urge the Ways & Means Committee and the House of Representatives to facilitate passage of this legislation as soon as possible.

Sincerely,

Employees of The Nissei Corporation
Henderson, Nevada



WHY THIS BILL SHOULD BE PASSED

BENEFITS TO GEORGIA

- Twenty-seven highly skilled jobs will be maintained and approximately eight additional jobs will be created in a high tech field.

- Because the 3-D pictures are unique, the company will most likely receive considerable publicity. This publicity will also reflect positively on Georgia as an attractive area for high-tech research. Already, Johnson Space Center has approached Nissei about taking the camera up in the space shuttle.

WHY DUTY-FREE TREATMENT?

- The camera will not compete with an American-made camera.

  There is no U.S. industry producing like or similar cameras. Therefore, Nissei would not injure any segment of the U.S. economy. In fact, the introduction of such a product would offer a product not previously available to U.S. consumers.

- The duty currently in place for most cameras will have a negative impact on both companies' ability to expand its operations to meet the anticipated demand.

  A duty of this magnitude will impact substantially on a start-up company like Nissei where either losses or a thin net profit margin in the range of two to three percent is commonplace. It is necessary to maximize cash flow to build up the companies capital base in order to expand operations.

- Similar items are allowed duty free.

  Hand-held, fixed focus instant cameras enter the United States duty free when imported from Hong Kong.

- Hong Kong is a free trade country.

  Hong Kong has a free market system, one of the most open in the world. The United States can export its goods to Hong Kong without paying any Hong Kong customs duties. It is thus reasonable to allow 3-D cameras, manufactured in Hong Kong, to enter the United States duty free. (The tariffs were not to be revenue producers for the United States, but as retalitory measures against countries that did not open markets.)

NISSEI
RESEARCH
CORPORATION

SPALDING SQUARE I, 4056 WETHERBURN WAY, SUITES 204 & 205
NORCROSS, GA 30092 (404) 448-4567 FAX NO. (404) 451-1538

February 1, 1988

Nissei Research Corporation is a privately owned American Company, incorporated in the State of Georgia. We have associations with Quantronics Manufacturing Ltd., Hong Kong, and Bentley Industries in Henderson, Nevada. The Nissei Corporation located in Henderson, Nevada, is a major photoprocessing laboratory applying the 3-dimensional photographic technology developed by our research organization.

Nissei Research Corporation has interest in and is expanding technologies relating to the production of photographic materials, such as light sensitive emulsions and coated films. We have expertise in photoprinting and processing. Our main line of business is 3-dimensional photographic systems. This technology requires knowledge in lenticular viewing systems, optical mechanical scanning systems and electronic image processing. Through research in these areas, we have developed processes and supporting real-time multitasking software. Businesses utilizing these algorithms and digitized electronic image processing techniques are commercial advertising, aerial reconnaissance, forest and conservation mapping and color image reproduction.

As with most companies, our primary strength is our people. Today we have twenty-seven full time employees, four contract employees and several consultants assisting us in special technologies. We are anticipating the addition of eight highly technical positions to open during 1988. This coming year will be a year of growth in order to meet our business opportunities.

Sincerely,

Thomas J. Steimer

Thomas J. Steimer
Vice President
Director of Research

NISSEI
RESEARCH
CORPORATION

SPALDING SQUARE I, 4056 WETHERBURN WAY, SUITES 204 & 205
NORCROSS, GA 30092 (404) 448-4567 FAX NO. (404) 451-1538

THE NISSEI RESEARCH CORPORATION
and
3-DIMENSIONAL PHOTOGRAPHIC BUSINESS

The 3-dimensional photographic business has four major integrated segments:

- **o CAMERA** — Special "Quadra Lens" photographic camera capturing, on standard 30mm film, four unique exposures of each scene differing only in parallax.

  This camera has been designed and is being manufactured by Quantronics Manufacturing Limited, Hong Kong.

- **o PHOTOGRAPHIC PRINT MATERIAL** — Laminate of three optically clear plastics forming a lenticular base material which in turn is coated with a color photographic emulsion.

  This technology was developed by Nimslo Corporation. 3-Dimensional photographic and marketing rights were purchased by The Nissei Corporation. The technology and manufacturing processes have been greatly improved by Nissei Research Corporation in Georgia.

- **o PHOTOGRAPHIC PROCESS** — 3-Dimensional photo processing requires special-handling equipment and processing techniques. The key components in the process is the 3-Dimensional Printer. The printer is an optical, mechanical scanning device controlled with the latest electronic image processing technology. This instrument performs all the standard color printing functions in addition to composition, alignment and registration of the four unique exposures from the Quadra Lens Camera. Scenes are projected to the lenticular print material.

  Nissei Research Corporation has designed and is currently fabricating, in its facility in Georgia, several printers for the Nissei Corporation.

- **o OTHER OPPORTUNITIES** — By reapplying some of the fundamental 3-dimensional photographic technologies and graphic printing techniques, Nissei Research Corporation has demonstrated two innovative methods of producing high quality lenticular prints in large volume.

NISSEI
RESEARCH
CORPORATION

SPALDING SQUARE I, 4056 WETHERBURN WAY, SUITES 204 & 205
NORCROSS, GA 30092 (404) 448-4567 FAX NO. (404) 451-1538

February 1, 1988

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

RE: H.R. 3626

Dear Mr. Leonard:

As employees of Nissei Research Corporation, Atlanta, Georgia, we are writing in support of H.R. 3626, a bill which when enacted will permit The Nissei Corporation, Henderson, Nevada, to import 3-D cameras duty-free from Hong Kong.

We feel that this bill will have a significant effect on the success of The Nissei Corporation. Because of our corporate interdependence, the future of both endeavors are at risk. The Nissei Corporation is a major photoprocessing laboratory applying the 3-dimensional photographic technology developed by our research organization. The camera is the foundation to both of these businesses and its successful acceptance in the marketplace will assure our futures.

The photographic 3-dimensional imaging technology is divided into three specialized product areas. Each area is dependent upon the other's success. The technology and engineering support for the cameras is the responsibility of Nissei Research Corporation here in the United States. In addition, we are also responsible for the manufacturing of the photographic print materials and photoprocessing equipment required in this new business.

The future of the 3-dimensional photographic industry will be positively impacted with the passage of this bill. It will also encourage and ensure many new highly skilled jobs. For these reasons, we respectively urge the Ways and Means Committee and the House of Representatives to support passage of this legislation and approve this Bill.

Thank you for your consideration of this matter.

Sincerely,

Dallas Addis
Roberta Berg
Mark Burwick
Chris Cashion
Chi-Ming Chan
Chui Wo Chau
Bob Fritsch
Marlene Fucito
Jim Hall
John Hansell
Tom Knesel
Casey Lang
Kin Keung Mak
Walt Mena
Vermona Pigues
Igor Samiolovich
Herbert Sams
Dietmar Schellenberg
Tom Steimer
John Steil
Jim Thomas
Steve Ussery
Richard Yost
Joe Harrison

R. T. (TOM) PHILLIPS
District 9
1703 Pounds Road
Stone Mountain, Georgia 30087

COMMITTEES:
Banking & Finance
Defense & Veterans Affairs, Secretary
Education
Federal, State & Community Affairs
SUBCOMMITTEES:
Banking
Libraries

The State Senate

Atlanta, Georgia 30334

February 17, 1988

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

RE: H.R. 3626

Dear Mr. Leonard:

I am writing in support of HR 3626, a bill that will provide duty-free treatment for three dimensional cameras. This bill was introduced by Nevada Congressman James Bilbray on November 10, 1987.

Although the Nissei Corporation appears to be the primary beneficiary of this legislation, Nissei Research Corporation, located in Atlanta, Georgia, in my Ninth Senatorial District will also benefit. Nissei Research performs all of the research and development for the 3-D technology and employs a number of my constituents in highly-skilled technical jobs. This bill's passage will encourage and ensure the continuing need for highly skilled technical positions focused on the development of this new technology.

I am sure that others from the Nissei and Nissei Research Corporation have made you aware of the reasons for the duty-free treatment. I would like to give my support to this bill which I perceive as having no risks to our country and would ensure keeping and providing more highly skilled technical jobs in my district here in Georgia. In addition their research and development work will keep America ahead in this field.

Sincerely,

Tom Phillips

R. T. (Tom) Phillips
Senator - Georgia General Assembly

[Similar letter also received from Gerald L. Bartels, President, Atlanta Chamber of Commerce]

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEES:
FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE
INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
INTERNATIONAL DEVELOPMENT INSTITUTIONS AND FINANCE
HOUSING AND COMMUNITY DEVELOPMENT
ECONOMIC STABILIZATION

Congress of the United States

PATRICK L. SWINDALL
331 CANNON BUILDING
WASHINGTON, DC 20515
(202) 225-4272

COMMITTEE ON THE JUDICIARY
SUBCOMMITTEES:
IMMIGRATION, REFUGEES, AND INTERNATIONAL LAW
ADMINISTRATIVE LAW AND GOVERNMENT RELATIONS
CRIMINAL JUSTICE
SELECT COMMITTEE ON AGING
SUBCOMMITTEE:
RETIREMENT INCOME AND EMPLOYMENT

February 18, 1988

The Honorable Dan Rostenkowski, III
Chairman
House Committee on Ways & Means
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Dan:

I am writing in support of H.R. 3626, a bill pending before your committee which will provide duty-free treatment for 3-dimensional cameras. This bill was introduced last November by Congressman James Bilbray.

As you are aware, the 3-D camera is manufactured by Quantronics Manufacturing Limited, Hong Kong. There is no U.S. industry producing like or similar cameras. Nissei Corporation, which is involved in 3-D photo processing, needs the duty-free treatment for the cameras in order to expand its operations to meet the anticipated demand.

While the bill would directly benefit Nissei Corporation located in Nevada, it would also benefit Nissei Research Corporation which is located in Atlanta, Georgia. Nissei Research performs all of the research and development for the 3-D technology and employs a number of my constituents in highly-skilled technical jobs.

I support this bill and request your favorable consideration for passage out of your committee. This bill should present no risks to our country and should encourage the development of more highly skilled technical positions to keep America ahead in this field.

With best regards, I am

Sincerely,

PAT SWINDALL
Member of Congress

GEORGIA DISTRICT OFFICES:

DEKALB OFFICE
100 CLAIRMONT AVENUE
SUITE 140
DECATUR, GA 30030
(404) 373-3609

NORTH FULTON OFFICE
1001 CAMBRIDGE SQUARE
SUITE A, HWY 9
ALPHARETTA, GA 30201
(404) 475-7007

ROCKDALE OFFICE
900 BANK STREET
CONYERS, GA 30207
(404) 483-3304

NEWTON OFFICE
1110 USHER STREET
ROOM 17
COVINGTON, GA 30209
(404) 787-8110

BARBARA F. VUCANOVICH
2ND DISTRICT, NEVADA

COMMITTEE ON INTERIOR
AND INSULAR AFFAIRS

COMMITTEE ON HOUSE
ADMINISTRATION

CONGRESSIONAL TRAVEL AND
TOURISM CAUCUS

ENVIRONMENTAL AND ENERGY
STUDY CONFERENCE

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

312 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-6155

FEDERAL BUILDING
300 BOOTH STREET, SUITE 1139
RENO, NEVADA 89509
(702) 784-5003

443 5TH STREET
ELKO, NEVADA 89801
(702) 738-4084

POST OFFICE BOX A
CIVIC CENTER DRIVE
[illegible], NV 89030
(702) 399-3555

February 3, 1988

The Honorable Daniel Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth H.O.B.
Washington, D.C. 20215

Dear Chairman Rostenkowski:

I am writing to you in support of H.R. 3626, a bill which I introduced along with my colleague from Nevada, Congressman Bilbray. H.R. 3626 was introduced on November 10, 1987 and would provide duty-free treatment for 3-Dimensional ("3-D") cameras. Although Nissei Corporation is not located in my District, it is a Nevada company which brings much needed employment to the Las Vegas area.

You may be aware, the 3-D cameras, which would be imported duty-free from Hong Kong, are only one part of a marketing and distribution system. That system is designed primarily to sell the processing and printing of the 3-D images created by the Nishika camera. I understand that Nissei's intent is to distribute the camera at a low enough price to assure a broad volume of sales which in turn will generate a substantial volume of 3-D printing and processing. This approach promises to generate substantial employment in Henderson, Nevada with "ripple" effects in other areas which will supply the printers, chemicals, and other processing materials most of which are of U.S. origin.

I further understand that there are no competing cameras made in the United States and no prospect of any manufacture. The impact of Nissei imports on U.S. revenue, even if the projections of Nissei are fully achieved, is insignificant in the overall picture. In any event, the imports are from Hong Kong, a country which is virtually unique in the openess of its own market to U.S. goods and services.

Thank you for your consideration of this matter and I hope we can move the bill expeditiously. If you need additional information, please feel free to give me a call.

Sincerely,

Barbara F. Vucanovich

BARBARA F. VUCANOVICH
Member of Congress

H.R. 3637

To suspend temporarily the duty on certain imported fluorspar.

STATEMENT OF AMERICAN IRON AND STEEL INSTITUTE
BEFORE SUBCOMMITTEE ON TRADE OF THE HOUSE OF
REPRESENTATIVES COMMITTEE ON WAYS AND MEANS
ON H.R. 3637 - SUSPENSION OF DUTY ON FLUORSPAR
FEBRUARY 5, 1988

The American Iron and Steel Institute (AISI) is pleased to submit this testimony in support of H.R. 3637, a bill which would suspend the duty on fluorspar containing not over 89% by weight of calcium fluoride.

AISI is the principal trade association of the steel industry. Its domestic member companies account for approximately 80% of the steel production capability in the United States. AISI membership also includes some Canadian and Latin American steel companies.

Fluorspar is the commercial name for the mineral fluorite, which contains calcium fluoride (CaF_2). The tariff schedules of the United States recognize two grades of fluorspar; the first, commonly called acid grade fluorspar, contains over 97.0% CaF_2 and requires a duty of $2.10 per long ton. The second grade, commonly called metallurgical grade fluorspar, contains less than 97.0% CaF_2 (normally less than 89%) and carries a duty of 13.5% ad valorem. Metallurgical grade fluorspar is used almost exclusively by the steel industry and is the material of concern to AISI.

On January 1, 1980, the duty on metallurgical grade fluorspar was converted from a specific rate of $7.50 per short ton to an ad valorem rate of 13.5%. This conversion has resulted in a substantial net increase in duties that have been paid by U.S. consuming steel producers. The 13.5% ad valorem duty on metallurgical fluorspar is one of the highest duties applied to any basic raw material or mineral.

AISI believes that this duty should be suspended because it has failed to maintain domestic production levels. In 1986 total domestic production of fluorspar totalled 78,000 short tons, only a small part of which was metallurgical grade. That same year, imports of metallurgical grade fluorspar totalled 123,000 short tons. The estimated duty payment on metallurgical grade fluorspar in 1986 was over $10 per short ton. Considering the lower value of metallurgical fluorspar, compared to acid grade, it appears that the duty alone paid by domestic consumers on metallurgical grade fluorspar is about equal to, and may exceed, the value of the domestic production of metallurgical fluorspar.

Adequate supplies of domestic fluorspar are not available and reliance on foreign fluorspar is necessary. At present, the principal foreign source of metallurgical fluorspar is Mexico.

The U.S. Bureau of Mines has summarized the fluorspar situation with the following statement:

> 1 Fluorspar is considered a strategic and critical commodity because U.S. import reliance is greater than 85% and fluorspar is necessary in most steel and aluminum production processes.
>
> Fluorine compounds, derived from fluorspar, are also used in the production of nuclear fuel. The chemical and ceramic industries are also significant users of fluorspar. There are many other diverse uses of fluorspar, including water fluoridation.

---

1 "Fluorspar," Mineral Commodity Profiles, Bureau of Mines, U.S. Department of the Interior, 1983.

With the exception of 1981, domestic production of fluorspar has declined since 1976. The decline is believed to have been caused by recessions of the U.S. economy, the low profitability of sales of domestic fluorspar at prices that are competitive with foreign production, and health and safety regulations.

The recent recession has lowered the demand for fluorspar and, together with high interest rates, has created problems for current producers and discouraged potential producers.

Reserves of fluorspar in the United States are not sufficient to meet U.S. demand until the year 2000, and the recovery of fluo-silicic acid, which is dependent upon the production of phosphate fertilizer, may be needed to fill the gap. The United States contains extensive

subeconomic fluorspar resources, the characteristics of which -- ore grade, deposit size, and location with respect to market and transportation routes -- makes them unprofitable under current economic conditions. Significant price increases would be needed for these resources, located mostly in the West, to become economical.

Foreign reserves of fluorspar are more than adequate and foreign producers, because of lower operating costs, are able to export to the United States at prices below those that are profitable for most domestic producers.

AISI believes that it is clear that the 13.5:% duty on metallurgical grade fluorspar is not serving as an effective protection for the domestic industry and should be suspended.

In summary, AISI supports H.R. 3637 and urges its adoption.

0534S

H.R. 3645

To provide relief to Columbia Sportswear Company with respect to the tariff classification of certain wearing apparel, and for other purposes.

H.R. 3645
STATEMENT OF COLUMBIA SPORTSWEAR
TIM BOYLE, GENERAL MANAGER
6600 NORTH BALTIMORE
P.O. BOX 03239
PORTLAND, OREGON 97203

I. COMPANY BACKGROUND:

Founded in 1937 by my grandfather, Paul Lamfrom, a German immigrant, Columbia Sportswear has grown from a small regional distributor of hats and caps in the Western United States, to a leader in the outdoor clothing industry in North America.

Mr. Lamfrom owned the largest shirt company in Germany and brought that experience to the Pacific Northwest. Since its inception, the company has remained a closely held family organization, and today, Columbia Sportswear is headed by myself and my mother, Gert Boyle, Lamfrom's daughter.

From its modest beginnings, Columbia Sportswear has emerged in the last decade as a major innovative force in the production and distribution of outdoors apparel. The company presently employs approximately 300 people, and sales of $ 1/2 million in 1975 have increased to a high of $ 30 million in 1987. Aggressive research and development, unparalleled product creativity and strict quality control are the major factors that have contributed to the company's growth. Engineered quality products are what Columbia's reputation is based on.

The corporate headquarters of Columbia Sportswear are located in Portland, Oregon where it also has a distribution center. A manufacturing and distribution center is located in Chaffee, Missouri. Columbia Sportswear contracts for production with companies located in Vancouver, Washington; Canby, Hubbard and Portland, Oregon; and Clifton, Tennessee. The company also imports product from Korea, Taiwan, Hong Kong and Japan.

Approximately one third of Columbia's business is done through specialty mail order companies such as Land's End, Eddie Bauer, L.L. Bean, Cabela's and Orvis. Another one third is through specialty outdoor shops, and the remainder of its marketing outlets are large, full service sporting goods stores.

Columbia's product line can be broken down into four main groups which include rugged outerwear, specialty hunting apparel, fishing clothing, and alpine and nordic skiwear. Columbia has succeeded in changing the way people dress in the outdoors. Our unique engineered approach to outdoor clothing has created a worldwide reputation for quality and innovation.

II. CLASSIFICATION ISSUE:

Since December, 1985, Columbia Sportswear has imported, through the Port of Portland, Oregon, a number of garments engineered and designed by it which consist of an outer shell and a removable inner liner. Prior to July, 1987, those garments had been consistently classified pursuant to written Customs rulings as one garment under the Tariff Schedules United States since the date of the first importation. That classification history, including Columbia Sportswear's continual efforts in working with U.S. Customs officials in obtaining proper classification, is contained in Section IV. below.

The Port of Portland notified Columbia Sportswear on July 16, 1987 that the prior classification rulings and practice with respect to these garments would be changed. The tariff classification change requires that each garment, consisting of a shell and a removable liner, be treated as two separate garments for tariff classification and import quota purposes.

The new "two garment" classification would be applied to future factory bookings and importations. Columbia Sportswear has no objection to such prospective application. However, the change has also been applied to 1987 importations resulting from committed factory bookings made not only prior to the change but with justifiable reliance on the previous classification rulings given Columbia by U.S. Customs. Applying the new tariff classification to those importations and committed factory bookings has caused Columbia Sportswear substantial hardships as set out below in Section III and is the basis for the relief sought in H.R. 3645.

In addition to changing the tariff classification for committed factory booking importations, all garments previously imported with unliquidated entries have also been reassessed with increased duties caused by treating these earlier imports as consisting of two garments instead of one.

In this latter case, where Columbia Sportswear had already received and distributed the garments, Notices of Redelivery for insufficient quota have also been issued. These notices require Columbia to return the merchandise to Customs as quota was only presented for one garment instead of two at the time of importation. (As Columbia Sportswear has already sold the garments, this cannot be done.) Without the relief provided by H.R. 3645, Columbia is confronted with a failure to redeliver penalty equal to the total of the F.O.B. value of the merchandise and the amount of import duties.

III. RESULTS OF THE CHANGE IN CLASSIFICATION:

To comprehend the extreme problems this reclassification has caused Columbia Sportswear with respect to 1987 importations from committed factory bookings made in reliance upon prior Customs practices and rulings, it is necessary to understand the nature of Columbia Sportswear's business operations.

The garments imported and subject to the change in classification are garments contained in Columbia Sportswear's Fall '87 line. Quota for these garments was obtained in negotiations with offshore factories in September - December, 1986, nine months to one year before actual importation in 1987. To obtain the additional quota required by the change in classification (two garments vs. one garment) has been extremely expensive for Columbia.

Over 90% of the garments contained in the Columbia Sportswear Fall '87 line and subject to the change in classification were sold during the months of January -

March, 1987 at published prices. Therefore, the increases in duty charges and quota costs caused by the change in tariff classification could not be offset by raising prices.

Confronted with the increased duties and quota costs, Columbia Sportswear could not cancel production. Firm factory orders had been placed and the factories had obtained fabric and started production prior to any notification by U.S. Customs of the change in tariff classification.

Therefore, the hardships and problems confronting Columbia Sportswear from this change in classification have been real and immediate. For committed factory bookings and importations made prior to the classification change and in reliance on the earlier Customs Service advice, Columbia Sportswear has paid increased duty charges of $ 325,000.00 and additional quota costs of approximately $ 150,000.00, neither of which we were able to recoup by price increases or other measures.

H.R. 3645 only addresses the duty increases. The additional quota charges have been paid to foreign quota holders, cannot be recouped and are not addressed by H.R. 3645.

IV. CLASSIFICATION HISTORY:

The garments potentially subject to the reclassification are the result of innovations by Columbia Sportswear in 1985 in the design and construction of outdoors apparel. The company continues to be the leader in this type of garment. In excess of 90% of all importations and domestic production of these styles in 1987 were either importations or domestic production by Columbia Sportswear.

As Columbia Sportswear is an creative designer of outdoors clothing and because of the lead times that are necessary to obtain quota and book production, the company works very closely with the U.S. Customs Import Specialists at the Port of Portland, Oregon in determining the proper classification of garments it will import prior to the actual importation of those garments. With each new garment to be imported, the company provides the local Import Specialist a sample and in return receives tariff classification rulings.

Since 1985, when Columbia Sportswear created these particular styles of outdoors clothing comprised of a shell and a liner, the company has provided samples to and met with the U.S. Customs apparel Import Specialist at the Port of Portland on at least five separate occasions to determine the proper classification of the merchandise. On each occasion, the garments have been determined to be properly classified as one garment. The Customs Service Import Specialist at the Port of Portland has issued five written rulings advising Columbia Sportswear of the "single garment" classification. In Customs parlance, this means the garment (shell and liner) are treated as an "entirety", as opposed to two separate garments.

Relying upon that advice, Columbia Sportswear has a substantial history of importing garments prior to the change in classification in July, 1987. Since 1985, over 75,000 garments have been imported by Columbia Sportswear without any indication that its good faith reliance on the provided classification was improperly placed.

It was not until May 20, 1987, one and a half years after Columbia Sportswear requested and received unequivocal classification advice on five occasions, that the Port of Portland notified Columbia Sportswear that it would be reviewing its previous classification rulings on these particular garments. At that time, the company retained customs counsel to determine if the previous classifications had been in error. Counsel to Columbia Sportswear could find no court decisions or Customs Headquarters rulings to indicate that the original classification advice provided by the Port of Portland was improper.

On July 16, 1987, the Port of Portland changed the classification, leaving Columbia Sportswear unfairly confronted with the situation of having committed factory bookings justifiably made prior to May 20, 1987 in reliance upon Customs Service written advice. The financial hardships resulting from retroactively "moving the goal posts" are outlined above.

V. SUMMARY AND REQUESTED RELIEF:

Columbia Sportswear is only requesting relief from duty increases for importations from committed factory bookings made in reliance upon written Customs Service advice and classification practice. No relief is requested for factory bookings made after May 20, 1987, the date that Columbia Sportswear was first notified that the prior rulings and practice might be changed. Columbia has no quarrel with the change in classification and its application to future transactions as we can plan our business accordingly.

H.R. 3645 simply provides that all importations resulting from factory bookings made prior to the date of notice of possible change in classification, be entered and appraised in accordance with a year and one half history of U.S. Customs written advice, direction and practice.

Columbia Sportswear has gone beyond all reasonable efforts to work closely with its local U.S. Customs officials in apprising them of the nature and construction of garments to be imported in order to obtain proper classification on those garments prior to actual importation. Justifiably relying upon the classification rulings the company received, it planned its business operations by obtaining quota and pricing its product based upon the reasonably expected tariff classification.

Relying on written Customs rulings, Columbia Sportswear imported the merchandise in question as one garment for approximately one and a half years. The liquidations of these entries as one garment, combined with the advance Customs written rulings, constitute, in effect, a classification practice upon which Columbia Sportswear had a right to reasonably rely in making business judgements and customary purchase decisions. This is particularly true when considered in light of the following crucial circumstances.

1. The liquidation by the Customs Service of the entries referred to above did not result from passive acquiescence on the part of the single Import Specialist who handled all of these Customs transactions. To the contrary, on five separate occasions a representative of Columbia Sportswear presented samples of this merchandise to the Import Specialist requesting direction with respect to the tariff

classification. In each case, the Import Specialist provided a written opinion confirming that the shell and liner were to be considered one garment, an entirety, under the tariff schedules.

2. Even at this date, there exists no contrary binding classification ruling applicable to the Columbia Sportswear merchandise. An Import Specialist has expressed his opinion that he regards the shell and liner as separate individual garments for tariff and quota purposes. That opinion, which is now the classification practice, is advisory in nature and does not constitute a binding Customs Service ruling under the applicable Customs regulations. Nonetheless, Columbia has no argument with a prospective application of this classification change.

The Customs Service classification practice which prevailed with respect to Columbia Sportswear merchandise for a year and one half does not conflict with any previously issued Customs Service ruling. Now that the Customs Service in Portland, Oregon has decided to change its classification practice, that change should not be applicable to merchandise which was the subject of committed Columbia Sportswear purchase orders made in reliance on prior written Customs Service advice.

Without this relief, Columbia Sportswear is confronted with an arbitrary change of a classification practice, a practice which Columbia Sportswear had justifiably relied upon as it was established by written rulings requested from the Customs Service by Columbia Sportswear. In the absence of this fair and equitable relief, Columbia Sportswear will be unfairly confronted with the financial hardships set forth above.

Respectfully submitted,

Tim Boyle
General Manager
Columbia Sportswear